

DEPARTMENT OF ECONOMIC AFFAIRS

State of the Economy

Over the past five years, the Indian economy has moved to a higher growth path. In the period 2003-04 to 2007-08 it averaged 8.8 per cent per annum growth in Gross Domestic Product (GDP) at constant 1999-2000 prices. On the demand side, this step-up in the growth rate has been largely on account of a significant rise in investment growth. On the supply side, at the sectoral level, this was manifest in strong growth in industry and sustained high contribution from services sector. During this period, inflation remained broadly in the moderate zone; fiscal consolidation proceeded apace and external sector remained robust. However, following the global commodity price shock towards the second half of 2007-08 and the initial impact of the global financial crisis, there were signs of slowdown in growth in the last quarter of 2007-08. Subsequently this was accentuated with the deepening of the global financial crisis and the freezing of international financial markets in September 2008. There was a global slowdown which impacted the Indian economy as well. As a result, the overall GDP growth in India moderated to 6.7 per cent during 2008-09 (RE) as compared to the 9.0 per cent in 2007-08. In comparison to other emerging economies and major developed countries that slipped into a recession, the GDP growth in India reflected resilience of its economy. The timely policy response to the global crisis and the sustained fiscal stimulus helped in moderating the decline in growth. In the last quarter of 2008-09 (Jan–March, 09), the economy is estimated to have grown at 5.8 per cent – the same level as in the third quarter indicating some stabilisation of the economy following the steep decline in growth. Moreover, with the Quarterly data released by the CSO on August 31, 2009 showing a GDP growth of 6.1 per cent in Q1 of 2009-10 along with revival in IIP growth figures in recent months, there is a distinct sign of a pickup in the economy. However some uncertainties related to the impact of monsoon failure on agriculture output and overall demand, as well as the timing of the global economic revival remain.

GDP Growth 2008-09 (Revised Estimates)

The overall growth of GDP at factor cost at constant prices for 2008-09 as per revised estimates released by CSO (on 29 May 2009) has been placed at 6.7 per cent. The growth achieved in 2008-09 is lower than the advance estimate of 7.1 per cent released earlier in February 2009. This is because the growth rate of all the sectors (barring community, social and personal services and construction) fell short of the growth assumed in the advance estimates for the last quarter of 2008-09. The sectors that experienced significant reduction in growth compared to 2007-08 include manufacturing (which suffered the maximum reduction in growth), followed by agriculture, financing, insurance, real estate & business services. The growth in community, social and personal services more than doubled in 2008-09, aided by expansionary fiscal policy. Apart from this, mining and quarrying also recorded a slightly higher growth in 2008-09.

	2007-08 ^{QE}	2008-09 ^{RE}
Agriculture, forestry & fishing	4.9	1.6
Mining & quarrying	3.3	3.6
Manufacturing	8.2	2.4
Electricity, gas & water supply	5.3	3.4
Construction	10.1	7.2
Trade, hotels, transport & communication	12.4	9.0
Financing, insurance, real estate & bus. Services	11.7	7.8
Community, social & personal services	6.8	13.1
GDP at factor cost	9.0	6.7

The demand side of GDP also went through significant changes in composition during 2008-09. Private consumption, that constitutes 55 per cent of GDP accounted for the bulk of the decline in growth of GDP. The growth in gross fixed capital formation also decelerated during the year. However, due to the significant fiscal stimulus which translated into increased expenditure in community, social and personal services, there was a tripling of the growth in Government consumption expenditure. The GDP at current market prices in 2008-09 was estimated at Rs. 53,21,753 crore and the per capita income was estimated at Rs 37,490. The Gross Domestic Savings as a percentage of GDP at current market prices was estimated to be 37.7 per cent while Gross Capital formation was 39.1 per cent in 2007-08.

Item	2007-08		2008-09	
	Share	growth %	Share	growth %
Private final consumption exp. (PFCE)	57.18	8.5	55.45	2.9
Government final consumption exp. (GFCE)	9.76	7.4	11.06	20.2
Gross fixed capital formation (GFCF)	31.61	12.9	30.24	8.2
Exports	20.25	2.1	21.54	12.8
Imports	24.6	6.9	27.33	17.9
GDP market prices (base 1999-00)		9.1		6.1

Growth in 2009-10

The Indian economy grew 6.1 per cent in the first quarter of (April-June) 2009. Sectoral growth for Agriculture, Industry and Services sectors during this period were at 2.4 per cent, 5 per cent and 7.8 per cent, respectively in comparison to 3 per cent, 6 per cent and 10.2 per cent respectively in Q1 2008-09. India's gross domestic production had grown 7.8 per cent in the April-June quarter a year earlier. There is a comparative (2009/10 vs. 2008/09) sectoral upturn evident in mining and electricity sub-sectors. The agricultural growth of 2.4 per cent had been compiled based on growth in production estimates of rice (3.8 per cent), wheat(2.6 per cent), coarse cereals(25.6 per cent) and pulses (18.2 per cent), for Rabi season (2008/09) ending June. The effects of drought may be experienced in the coming quarterly estimates, due to poor monsoon, drop in sowing area for Kharif (2009/10), and loss in standing crops. It may be mentioned that in 2002/03, when India last experienced drought GDP growth had slowed down to 3.8 per cent.

QUARTERLY ESTIMATES GDP AT CONSTANT (1999-2000) PRICES					
	2005-06	2006-07	2007-08	2008-09	2009-10
(Rupees Crore) at constant (1999-00) prices	Q1	Q1	Q1	Q1	Q1
1. agriculture, forestry & fishing	3.70%	2.80%	4.30%	3.00%	2.40%
INDUSTRY	11.10%	10.80%	9.20%	6.00%	5.00%
2. mining & quarrying	7.50%	7.20%	0.10%	4.60%	7.90%
3. manufacturing	10.70%	11.50%	10.00%	5.50%	3.40%
4. electricity, gas & water supply	7.10%	3.60%	6.90%	2.70%	6.20%
5. construction	14.50%	12.90%	11.00%	8.40%	7.10%
SERVICES	10.10%	11.60%	10.80%	10.20%	7.80%
6. trade, hotels, transport & communication	12.10%	11.90%	13.10%	13.00%	8.10%
7. financing, insurance, real estate & bus. Services	10.00%	13.40%	12.60%	6.90%	8.10%
8. community, social & personal services	6.70%	9.00%	4.50%	8.20%	6.80%
10. GDP at factor cost (total 1 to 8)	9.10%	9.70%	9.20%	7.80%	6.10%

After a period of drying up following the deepening of the crisis in the third quarter of 2008-09, net capital flows have recovered and current account stabilised with a surplus in the last quarter of 2008-09. However, world trade volumes are yet to pick up and the recovery for exports is as yet uncertain. In the current fiscal 2009-10, foreign exchange reserves increased by US\$ 28.8 billion to US\$ 280.8 billion as on September 18, 2009 from the end-March 2009 level of US\$ 252.0 billion. Foreign currency assets (FCA) increased from US\$ 241.4 billion at the end of March 2009 to US\$ 264.4 billion as on September 18, 2009, showing an increase of US\$ 22.9 billion. Out of the total increase of US\$ 22.9 billion in FCA, US\$ 20.3 billion (88.5 per cent) was on account of valuation gain, reflecting the appreciation of major international currencies against the US dollar. Exchange rate of the rupee vis-à-vis US dollar has stabilized; the average monthly exchange rate moved in a narrow range of Rs. 48.30-48.48 per US dollar during July-August 2009. The monthly average exchange rate for September 2009 (up to September 25) was Rs. 48.46 per US dollar.

Liquidity constraint is not an issue at present as judged from the behaviour of call money rates, which are by and large ruling within the repo and reverse repo corridor. The First Quarter Review of the Monetary Policy for 2009-10 was released by the RBI on July 28, 2009 and no changes in policy rates have been made. On a year-on-year (y-o-y) basis, broad money (M_3) growth was 19.0 per cent as on September 25, 2009 as compared to 19.5 per cent a year ago. On a financial year basis, growth in M_3 during 2009-10 (up to Sep 25, 2009) was 7.0 per cent as compared with 6.6 per cent during the corresponding period of the preceding year. The increase in M_3 growth is largely attributable to the growth in Net Bank Credit to Government. The decline in M_0 during the current financial year may largely be attributable to a decline in the net foreign assets of the RBI which had been the main driver of growth of reserve money in earlier years. During the current financial year the growth in bank credit has remained low. Non-food credit during the financial year (up to September 25, 2009) has recorded an increase of 3.7 pointing to the continued sluggishness in demand for credit by the productive sectors of the economy. The Annual Report 2008-09 released by the RBI on August 27, 2009 also highlights the need for revival of credit demand in the economy as a major challenge. The Report seeks to provide a policy regime that would enable credit expansion at viable rates while preserving credit quality so as to support the return of the economy to a high growth path and maintain a monetary and interest rate regime supportive of price stability and financial stability.

The growth in the overall Index of Industrial Production during April-August 2009-10 was 5.8 per cent compared to 4.8 per cent during April-August 2008-09. Manufacturing

growth was 5.5 per cent during April-August 2009-10 as compared to 5.1 per cent during April-August 2008-09. Mining grew at 8.4 per cent in April-August 2009-10 compared to 3.5 per cent during April-August 2008-09. Electricity grew at 6.6 per cent during April-August 2009-10 compared to 2.3 per cent during April-August 2008-09. The index for 6 core industries (comprising crude oil, petroleum refinery products coal, electricity, cement and finished carbon steel with a weight of 26.68 per cent in the IIP grew at 4.8 in April-August 2009-10 compared to 3.3 per cent in April-August 2008-09.

The expansionary fiscal policy stance in 2008-09 to address demand slowdown has had a salutary effect on the real economy thus far. The impact of this expansionary policy could be gauged in terms the three main components of demand, namely, relative share growth and point contribution to growth. In the period 2003-04 to 2007-08, the higher growth trajectory of the Indian economy was due to rise in both consumption and investment demand. In 2008-09, there was a sharp deceleration in the growth in private consumption demand to 2.9 per cent from 8.5 per cent in 2007-08. The share of private consumption was at 57.2 per cent and Government consumption at 9.8 per cent in the GDP at current market prices in 2007-08. In real terms, thus contribution of private consumption expenditure halved in 2008-09 to 27.0 per cent and that of Government consumption expenditure rose to 32.5 per cent (as against 8 per cent in 2007-08). This helped arrest decline in GDP in 3rd and 4th quarters and help in achieving a growth of 6.7 per cent for 2008-09 as a whole, which vindicates the policy stance followed.

The Budget for 2009-10 places the fiscal deficit at 6.8 per cent of GDP, which indicates a fiscal expansion of 4.2 per cent of GDP over the levels in 2007-08 composed of decline in non-debt receipts of 1.8 per cent of GDP (of which tax revenue was 1.2 per cent of GDP) and a hike in expenditure of 2.3 per cent of GDP. The decline in tax-GDP ratio is partly on account of the tax cuts implemented. These levels of expansion are short-term responses (conform to international best practices) and are not sustainable on a long-term basis. To address such concerns, the Medium Term Fiscal Policy Statement 2009-10 has provided the roadmap with fiscal deficit declining to 5.5 per cent of GDP in 2010-11 and further to 4.0 per cent of GDP in 2011-12. The 13th Finance Commission, which is scheduled to submit its Report later this year, will lay down the roadmap for fiscal consolidation for both the Centre and States for the next 5 years.

Prospects

The Indian policy stance, to counter the adverse impact of the global financial crisis has been a mix of choices. Monetary policy was used for achieving financial stability and stimulant to growth impulses and fiscal policy took care to arrest the domestic demand slowdown and revive it. Besides, sector specific measures were also taken to address such issues of credit availability, interest subvention etc. The level of growth in 2008-09 at 6.7 per cent, which is one of the highest in the world, testifies the appropriateness of policy stance.

Growth projections made by multilateral and other agencies for the world in general, and specific countries in particular, got successively lower especially after September 2008. According to the IMF's World Economic Outlook (WEO) released on April 22, 2009, the world output is expected to decline by 1.3 percent in 2009 as a whole and recover only gradually in 2010 by growing at 1.9 percent. In its latest update (October 2009), the IMF has revised the projections estimating global output growth at (-) 1.1 per cent in 2009 and 3.1 per cent in 2010 indicating the likelihood of an early recovery.

As for India, there are positive indications that the economy may have weathered the worst of the downturn and as a consequence of various monetary and fiscal measures overall growth during the year 2009-10 would revive. The foreign exchange reserve position is comfortable and India's external debt position is also within the comfort zone. Due to base effect of high levels of inflation last year, WPI weekly inflation has remained in the negative zone; but the signs of hardening of prices are evident in recent months. South West Monsoon has remained deficient notwithstanding the levels of rains in late August 2009 and the overall deficiency as on September 2, 2009 was placed at 23 per cent of the long period average; but the deficiency in Northwest India at 39 per cent is still high. Internal estimates by the Planning Commission places growth in 2009-10 at (-) 2.5 per cent. Industrial growth and growth of key infrastructure related industries like cement, electricity and coal have shown better growth in June 2009, which is indicative of a revival.

In the medium to long term, India enjoys some unique advantages like a high saving rate, large domestic market and demographic factors that will remain conducive to sustaining demand. Nevertheless, the current situation warrants a close watch on various economic indicators including the developments taking place in the international economy. There is a need to speed up development and infrastructure projects and ensuring that bank credit is available to all sectors, sections and units across the scale.

Balance of Payments, reserves, exchange rate and external debt

Global economic crisis

The global financial system has been under considerable strain since August 2007 on account of the sub-prime mortgage market crisis in US, and owes to the structured investment instruments created out of such sub-prime mortgage assets. The securitization process, however, was not backed by due diligence and led to large-scale default. The complexity of the instruments, the role of credit rating agencies and lax regulatory structure played a contributory role. The high ratings assigned to certain tranches of structured instruments, which were quickly reversed with the onset of the crisis, created a crisis of confidence among investors and precipitated the crisis. Following the collapse of Lehman Brothers in mid September 2008, there was a full-blown financial meltdown, which severely affected the financial and real sectors of the developed and developing countries.

The Indian economy was not significantly affected by the global financial turmoil in the initial stages; In fact, the initial effect was positive, as India received huge financial institutional investors (FII) investment inflows (net) of US\$ 22.5 billion during September 2007 to January 2008, as against US\$ 11.8 billion during April-July 2007. This contributed to the debate on "decoupling, however, the argument was proved unfounded as the global financial crisis intensified and spread to India through capital and current account routes of the balance of payments (BoP). The extent of reversal of capital flows from India was US\$ 15.8 billion during five months following the end of "positive shock" period in January 2008.

The direct impact of the crisis on financial sector was primarily through exposure to toxic financial assets and the linkages with the money and foreign exchange markets. Indian banks however had very limited exposure to the US mortgage market, directly or through derivatives, and to the failed and stressed international financial institutions. The deepening

of the global crisis and subsequent deleveraging and risk aversion however affected the Indian economy leading to slowing of growth process. The impact on Indian economy, however, was less severe in view of the predominance of domestic demand.

The overall Balance of Payment situation remained resilient despite signs of strain in the capital account that manifested in the net reversal of FII flows of US\$ 15 billion during fiscal 2008-09 and. The rupee depreciated by 21.2 per cent against the US dollar during fiscal 2008-09. The US dollar however appreciated by 17 per cent against the broad index (FRB, New York) between March 2008 and March 2009, suggesting that only 5 percentage points of the rupee depreciation was due to India specific factors.

Balance of Payments (BoP)

The signs of global financial crisis were evident in India's Balance of Payment (BOP) position in the year 2008-09. During the fiscal 2008-09 (April – March), trade deficit increased to US \$ 119.4 billion (10.3 per cent of GDP) as compared to US \$ 91.6 billion (7.8 percent of GDP) during 2007-08. This 30.3 percent increase in trade deficit during 2008-09 over 2007-08 was primarily on account of sharp slowdown in exports and higher growth in imports vis-a-vis exports during 2008-09. Similarly, Goods and Services deficit (i.e Trade Balance plus Services) widened to US\$ 69.6 billion (6.0% of GDP) during the period under reference as compared to US\$ 54.1 billion (4.6% of GDP) in 2007-08. Invisible balances however showed an improvement registering 20.1percent increase in net invisibles from US\$ 74.6 billion (6.4% of GDP) in 2007-08 to US\$ 89.6 billion (7.7% of GDP) during 2008-09, which was mainly due to higher receipts under private transfers and software services. This had partly negated the effect of higher Trade Deficit. The Current Account Deficit (CAD) was US\$ 29.8 billion (2.6% of GDP) in 2008-09 as against US\$ 17.0 billion (1.5% of GDP) during the year 2007-08.

Net capital flows were placed at a level of US\$ 9.1 billion (0.8 % of GDP) in 2008-09 and were much lower compared with US\$ 108.0 billion (9.2% of GDP) in 2007-08. All the major components, except FDI and NRI deposits, showed decline during 2008-09 from their level in the preceding year 2007-08. The decline was sharp in the case of portfolio flows (from US\$ 29.6 billion in 2007-08 to US\$ (-) 14.0 billion in 2008-09) and short-term trade credits to India (from US\$ 17.2 billion in 2007-08 to US\$ (-) 5.8 billion) as fallout of the global crisis. The net foreign direct investment (FDI) was US\$ 17.5 billion in 2008-09 as against US\$ 15.4 billion during 2007-08 showing an increase of 13.6 per cent, reflecting confidence of international community in investment climate in India. FDI inflows were broad based and spread across a range of economic activities like, manufacturing (21.1%), financial services (19.4%), communication services (9.9%) etc. The Capital Account Balance has significantly declined to US\$ 9.7 billion (0.8% of GDP) during 2008-09 from the level of US\$ 109.2 billion (9.2% of GDP) in 2007-08.

The salient features of BOP developments during 2007-08, 2008-09 and Q1 of fiscal 2008-09 and 2009-10 are summarised below:

		US \$ Billion				
Sl	Items	2007-08 (PR)	2008-09 (P)	2008-09 (Q1) (PR)	2009-10 (Q1) (P)	%age change in Q1 of 2009-10 over Q1 of 2008-09
1	Exports	166.16	175.18	49.12	38.79	-21.03
2	Imports	257.79	294.59	80.55	64.78	-19.58

3	Trade Balance	-91.63	-119.40	-31.43	-25.99	-17.31
4	Net Invisible	74.59	89.59	22.41	20.18	-9.95
5	Current Account Balance	-17.03	-29.82	-9.02	-5.81	-35.59
6	External assistance (Net)	2.11	2.64	0.35	0.08	-77.14
7	Commercial Borrowing (Net)	22.63	8.16	1.47	-0.36	-124.49
8	FDI (Net)	15.40	17.50	8.97	6.83	-23.86
9	Portfolio	29.56	-14.03	-4.21	8.27	-297.8
10	Capital Account Balance (including errors & Omission)	109.20	9.74	11.25	5.90	-47.56
11	Change in Reserves (-indicates increase; + decrease) (on BOP basis)	-92.16	20.1	-2.24	-0.12	-94.6
	Memo Items/Assumptions					
1	Trade balance/GDP (%)	-7.8	-10.3	-10.6	-9.6	
2	Goods & Services Balance / GDP%	-4.6	-6.0	-6.7	-6.2	
3	Invisible Balance / GDP (%)	6.4	7.7	7.6	7.4	
4	Current Account Balance / GDP (%)	-1.5	-2.6	3.0	2.1	
5	Net Capital Flows / GDP (%)	9.2	0.8	3.8	2.2	

PR Partially Revised P: Preliminary

BoP during Q1 (April –June) of fiscal 2009-10.

The decline in exports which started since October 2008 continued during the first quarter of 2009-10. Import payments, on a BoP basis, also continued its declining trend mainly due to lower oil import bill. Private transfer receipts remained buoyant and increased by 9.4 per cent to US\$ 13.3 billion during Q1 of 2009-10. Exports of software services, however, declined during Q1 of 2009-10.

Despite net invisibles surplus at US\$ 20.2 billion, the large trade deficit (US\$ 26.0 billion) mainly on account of sharp decline in exports led to a current account deficit of US\$ 5.8 billion in Q1 of 2009-10 (US\$ 9.0 billion during Q1 of 2008-09). With the revival in capital inflows to India, particularly foreign investments, the capital account showed a turnaround from a negative balance in last two quarters of 2008-09 to a positive balance of US\$ 6.7 billion during Q1 of 2009-10.

Portfolio investment witnessed a sharp turnaround from net outflows of US\$ 2.7 billion in Q4 of 2008-09 to net inflows of US\$ 8.3 billion during Q1 of 2009-10. NRI deposits also witnessed higher inflows reflecting the positive impact of the revisions in the ceiling interest rate on NRI deposits.

There was a marginal increase in reserves on BoP basis (*i.e.*, excluding valuation) during Q1 of 2009-10. However, the foreign exchange reserves including valuation increased by US\$ 13.2 billion during Q1 of 2009-10 implying that the increase in reserves during this period was mainly due to valuation gains as the US dollar has depreciated against major currencies.

Foreign Exchange Reserves:

India's foreign exchange reserves comprise Foreign Currency Assets (FCA), Gold, Special Drawing Rights (SDRs) and Reserve Tranche Position (RTP) in the International Monetary Fund (IMF). The level of foreign exchange reserves is largely the outcome of the Reserve Bank's intervention in the foreign exchange market to smoothen exchange rate volatility and valuation changes due to movement of US dollar against other major currencies of the world. Foreign exchange reserves are accumulated when there is an absorption of the excess foreign exchange flows by the RBI through intervention in the foreign exchange

market and vice versa. Beginning from a low level of US\$ 5.8 billion at end-March 1991, India's foreign exchange reserves increased to peak of US\$ 314.61 billion at end-May 2008. The reserves declined thereafter to US\$ 251.7 billion at the end of March 2009.

The foreign exchange reserves declined from US\$ 309.7 billion at the end of March 2008 to US\$ 251.7 billion at the end of March 2009. Out of the total decline of US\$ 58.0 billion, US\$ 37.9 billion (65.3 per cent) was on account of valuation loss, reflecting the depreciation of major international currencies against the US dollar. The remaining decline of US\$ 20.1 billion (34.7 per cent) was due to higher current account deficit vis-a-vis capital account inflows, which could be attributed to global economic crisis. The level of foreign exchange reserves stood at US\$ 279.91 billion as on September 25, 2009.

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Foreign exchange rate

The exchange rate policy is guided by the broad principles of careful monitoring and management of exchange rates with flexibility, while allowing the underlying demand and supply conditions to determine the exchange rate movements over a period in an orderly manner. Subject to this predominant objective, RBI intervention in the foreign exchange market is guided by the objectives to reduce excess volatility, prevent the emergence of destabilizing speculative activities, maintain adequate level of reserves, and develop an orderly foreign exchange market.

In the fiscal 2008-09, the rupee depreciated against major international currencies, except pound sterling, due to deceleration in capital flows and widening trade deficit. The annual average exchange rate was Rs 45.99 per US dollar, Rs 64.98 per euro and Rs 46.22 per 100 yen, indicating depreciation by 12.5 per cent, 12.2 per cent and 23.5 per cent respectively in 2008-09 over the annual average exchange rate during 2007-08.

The month-to-month movement of exchange rate in the year 2008-09 indicated that the rupee depreciated against the US dollar in May-June 2008 but remained almost stable during July-August 2008. It depreciated sharply against the US dollar during September-October 2008 (Rs 45.56 in September 2008 and Rs 48.66 in October 2008) and moved in a narrow range of Rs 48.63 to Rs 49.26 during November 2008-February 2009. The rupee however recorded a depreciation of 3.8 per cent to Rs. 51.23 in March 2009 over the previous month.

The daily movement of exchange rate during 2008-09 revealed that the rupee/US dollar exchange rate, which was Rs 40.36 per dollar at end March 2008, crossed Rs 50.1 per dollar mark on October 27, 2008 and depreciated further to Rs 52.1 per dollar on March 5, 2009, before recovering to Rs 50.2 per dollar on March 20, 2009.

With the signs of recovery and return of foreign institutional investors (FIIs) flows after March 2009, rupee has again been strengthening against US dollar. In the current fiscal, on month-on-month basis, the average monthly exchange rate of Rupee appreciated to Rs 50.03 per US dollar in April 2009 vis-a-vis average rate of 51.23 per dollar during March 2009, indicating 2.4 percent appreciation. It has further appreciated to Rs 48.53 per US dollar during May 2009 reflecting 3.1 per cent appreciation over an average rate of Rs 50.03 per US dollar during the preceding month. In the month of June the average exchange rate was Rs 47.77 per US dollar, which indicates 1.6 per cent appreciation over the preceding month's average rate of Rs 48.53 per US dollar. In July average exchange rate was Rs 48.48 per US\$, reflecting depreciation of 1.46 per cent over average exchange rate of Rs 47.77 per US\$ during the month of June 2009. In the month of August 2009, the average exchange rate of Rs 48.30 per US dollar appreciated by 0.37 per cent over preceding month of average exchange rate of Rs 48.48 per US dollar. During September 2009, the average exchange rate of rupee was Rs. 48.44 showing a depreciation of 0.28 per cent over the previous month's average exchange rate of Rs 48.30 per US dollar.

India's External Debt

India's external debt stood at US\$ 227.7 billion at end-June 2009, recording an increase of US\$ 3.7 billion or 1.7 per cent over the end-March 2009 level of US\$ 223.9 billion. The depreciation of US dollar against other major currencies and Indian rupee resulted in an increase of US\$ 5.0 billion in external debt at the end of June 2009. Excluding the valuation effect, the external debt at end-June 2009 would have declined by US\$ 1.3 billion over the end-March 2009 level.

Long-term external debt increased by US\$ 6.7 billion to US\$ 187.1 billion as at end-June 2009, while short-term debt by original maturity declined by US\$ 3.0 billion to US\$ 40.6 billion on account of decline in short-term trade credit up to 6 months. Short-term debt by residual maturity at US\$ 89.1 billion was 39.1 per cent of total external debt at end-June 2009. At this level, the ratio of short-term debt by residual maturity to reserves worked out to 33.6 per cent.

Among the long-term debt components, NRI deposits recorded an increase of US\$ 3.4 billion during the quarter ended June 2009. ECB approvals during April-June 2009 were lower at US\$ 2.7 billion (US\$ 3.8 billion during April-June 2008). Reflecting the lower level of ECB approvals/disbursements, increase in external commercial borrowings was marginal at US\$ 645 million to US\$ 63.2 billion at end-June 2009.

Sovereign debt recorded an increase from US\$ 54.9 billion at end-March 2009 to US\$ 57.4 billion at end-June 2009. Its share in total external debt posted a marginal increase to 25.2 per cent from its previous quarter level of 24.5 per cent.

India's foreign exchange reserves provided a cover of 116.5 per cent to external debt stock as at end-June 2009 from 112.5 per cent as at end-March 2009. The ratio of short-term debt to foreign exchange reserves was lower at 15.3 per cent at end-June 2009 (17.3 per cent at end-March 2009). The share of concessional debt in total external debt increased marginally to 19.0 per cent as at end-June 2009 from 18.7 per cent at end-March 2009. Debt service ratio for April-June 2009 stood at 5.5 per cent as against 4.6 per cent for the financial year 2008-09.

A cross-country comparison of external debt of twenty most indebted developing countries, based on World Bank publication 'Global Development Finance, 2009' indicates that India was the *fifth* most indebted developing country in 2007 in terms of stock of external debt. In terms of ratio of external debt to Gross National Income, India's position was the *sixth* lowest, with China having the lowest ratio of external debt to GNI at 11.6 per cent. The element of concessionality in India's external debt portfolio was the *third* highest at 18.2 per cent after that of Indonesia and the Philippines.

Monetary Developments

Monetary Developments 2009-10

Taking into account the need for monetary policy to respond to slackening economic growth, RBI's Annual Policy Statement for 2009-10 announced in April 2009 seeks to provide a policy regime that would enable credit expansion at viable rates while preserving credit quality so as to support the return of the economy to a high growth path and maintain a monetary and interest rate regime supportive of price stability and financial stability taking into account the emerging lessons of the global financial crisis.

First Quarter review of Monetary Policy 2009-10

The First Quarter Review of the Monetary Policy for 2009-10 was released by the RBI on July 28, 2009. No changes in policy rates have been made. The growth in Broad Money for the year 2009-10 is expected at around 18 per cent. Consistent with this, aggregate deposits of scheduled commercial banks are projected to grow by 19.0 per cent. The growth in adjusted non-food credit, including investment in bonds/ debentures/shares of public sector undertakings and private corporate sector and CPs, has been retained at 20.0 per cent as in the Annual Policy Statement. While the Reserve Bank has maintained an accommodative monetary stance at present, it may reverse the expansionary measures to anchor inflation expectations and subdue inflationary pressures while preserving the growth momentum, if so warranted

RBI's Annual Report 2008-09

RBI's Annual Report 2008-09 was released on August 27, 2009. The Report takes note of the fact that real GDP growth, which had averaged at 8.8 per cent during 2003-08, decelerated to 6.7 per cent in 2008-09. It reiterates the estimate projected in the first quarterly review of the monetary policy for 2009-10 conducted on July 28, 2009 that placed GDP growth for 2009-10 would be "6.0 per cent with an upward bias". On the external sector side it states that the latest available trends for 2009-10 indicate that current account deficit as percentage of GDP would be lower than that in 2008-09. The need for revival of credit demand in the economy is one of the key challenges highlighted in the Report.

Update on Monetary parameters

- On a year-on-year (y-o-y) basis, broad money (M₃) growth was 19.0 per cent as on September 25, 2009 as compared to 19.7 per cent a year ago. On financial year basis, growth in M₃ during 2009-10 (up to Sep 25, 2009) was 7.0 per cent as compared with 6.6 per cent during the corresponding period of the preceding year. The increase in M₃ growth is largely attributable to the growth in Net Bank Credit to Government.

- As of September 25, 2009, there was decline in M_0 on financial year basis (-2.2 per cent), but of year-on-year basis, it registered a meagre growth of 1.0 per cent. This is largely attributable to a decline in the net foreign assets of the RBI which had been the main driver of growth of reserve money in earlier years.

Monetary Aggregates

	Year on Year		Financial year	
	September 25, 2009 (% change)	September 26, 2008 (% change)	End March-September 25, 2009 (% change)	End March - September 26, 2008 (% change)
MONEY				
Reserve Money (M0)	1.0	22.5	-2.2	3.1
Broad Money (M3)	19.0	19.5	7.0	6.6

Source: RBI

- During the current financial year the growth in bank credit has remained low. Non-food credit during the financial year (up to September 25, 2009) has recorded an increase of only 3.7 pointing to the continued sluggishness in demand for credit by the productive sectors of the economy.
- The Annual Report 2008-09 released by the RBI on August 27, 2009 also highlights the need for revival of credit demand in the economy as a major challenge. The Report seeks to provide a policy regime that would enable credit expansion at viable rates while preserving credit quality so as to support the return of the economy to a high growth path and maintain a monetary and interest rate regime supportive of price stability and financial stability.
- Liquidity constraint is not an issue at present as judged from the behaviour of call money rates, which are by and large ruling within the repo and reverse repo corridor and the continued daily absorption of liquidity under LAF since November 2008. The money market players have continued to park their funds through reverse repo auctions. This was around Rs. 1 lakh crore till mid September 2009, where after such reverse repo absorption has come down to around Rs 86,345 crores as on October 13, 2009.
- The policy rates have remained stable in recent past.

Prices

Annual average inflation of 8.4 per cent in 2008-09 in the wholesale price index (WPI) has been the highest in the 12 year period from 1995-96, when inflation was 8 per cent. The five year period, 2003-04 to 2007-08, had been characterized by annual average inflation below 5.5 per cent except in 2004-05 when it was 6.5 per cent. March 2007-08 witnessed a sharp rise in the WPI, which continued till September 2008. Thus, 2008-09 started with the headline WPI inflation close to 8 per cent, which moved into double digits in the first week of June, peaking at 12.9 per cent in early August 2008 and decelerating to 0.8 per cent at end-March 2009.

Domestic price movements in 2009-10

The deceleration in WPI inflation in the second half of 2008-09 continued into 2009-10, with inflation turning negative in June 2009. The volatility witnessed in the past year and

a half has to be seen in the context of the global commodity price behavior. Reflecting the sharp increase in global oil and metal prices, WPI inflation had risen to double digits in June 2008 and remained high until October 2008. As the global commodity prices moderated from their peak levels, domestic prices also adjusted, setting off a converse movement in WPI inflation. That volatility in WPI flowed largely from international commodity prices is evident from the trend in WPI inflation excluding mineral oils and metals (weight in WPI: 15.3 per cent), which is less volatile than the overall WPI inflation.

Current week WPI inflation

Year-on-year inflation measured in terms of WPI for the week ending October 3, 2009 at 0.92 per cent showed an acceleration of 22 basis points compared to the week ending September 26, 2009, while the index accelerated to 241.9 from 243.0 in the previous week. Inflation had remained below zero per cent since June 6, 2009 to August 29, 2009 due to negative inflation in non-food articles like raw cotton, oilseeds; minerals like iron ore; fuel, power, light & lubricants like mineral oils, coal mining and electricity; manufactured products like edible oils man-made fibres, leather & leather products, fertilizers, metals and machinery & machine tools. The annual rate of inflation turned positive since 1st week of September 2009. During 2008-09 it was stood at 11.49 per cent a year ago as on October 4, 2008 (Table 1) and 3.22 per cent two years ago as on October 6, 2007.

Financial Year inflation:

For the 27th week of 2009-10 ended October 3, 2009, the rise in WPI has been 5.82 per cent as compared to 5.73 per cent during the corresponding period last year. The average inflation rate for 27 weeks of 2009-10 stood at 0.20 per cent as compared to 11.02 per cent during 2008-09. Current price situation in WPI as compared to last year is indicated in table 1.

Items	All commodities		Primary articles		Fuel, power, light & Lub.		Manufactured Products	
	2009	2008	2009	2008	2009	2008	2009	2008
	-10	-09	-10	-09	-10	-09	-10	-09
Level of Index	241.9	239.7	272.8	251.9	345.4	370.6	208.1	206.3
<u>Per cent change</u>								
During the week	-0.45	-0.66	-1.45	-0.36	-0.06	-1.25	-0.19	-0.58
Last fortnight	-0.58	-0.66	-1.34	-0.12	-0.12	-1.25	-0.43	-0.63
Last month	0.33	-0.70	0.59	0.80	0.61	-1.51	0.10	-1.01
Inflation (52 wk avg)#	2.66	8.02	8.34	8.46	-4.32	8.58	3.08	7.63
Inflation (27 wk avg)#	0.20	11.02	7.35	10.52	-8.66	13.64	0.78	10.22
Financial year \$	5.82	5.73	9.56	6.38	7.60	8.43	3.58	4.46
Annual*	0.92	11.49	8.30	12.91	-6.80	14.49	0.87	9.79
*: Per cent change over corresponding week of last year.								
\$: Per cent change over March end of 2009.								
#: Average of y-o-y inflation for last 52 and 27 weeks.								

Disaggregated level inflation

At a disaggregated level, WPI inflation, because of food articles, is ruling high and WPI inflation for essential commodities (weight in WPI: 17.63 per cent) is also in double digits. Inflation in the food index and in essential commodities in the past 8 weeks is as below:

Items	Weight (%)	Last yr.	Inflation during current 8 weeks (2009-10)							
		4/10/2008	15/8/2009	22/8/2009	29/8/2009	5/9/2009	12/9/2009	19/9/2009	26/9/2009	3/10/2009
COMPOSITE FOOD	25.43	9.03	11.96	13.81	13.88	14.87	15.31	15.98	15.15	13.96
a) Food articles	15.40	10.19	13.29	14.53	14.80	15.42	15.64	16.32	15.45	13.34
a1.Cereals	4.41	7.38	11.97	12.56	12.59	12.69	12.96	13.17	13.45	11.90
a2.Pulses	0.60	8.81	20.18	21.63	20.03	21.57	21.10	20.05	20.45	20.57
a3.Vegetables	1.46	12.78	38.38	44.48	43.72	42.32	44.85	49.44	42.99	23.21
a4.Milk	4.37	7.90	9.63	9.63	10.21	10.21	10.21	9.58	8.72	10.03
b. Food products	11.54	10.02	9.13	12.38	11.68	11.68	12.68	13.13	11.47	14.19
b1.Sugar	3.62	13.58	28.90	37.72	35.89	41.45	43.35	44.47	42.69	45.52
b2.Edible oils	2.76	11.20	-9.69	-8.56	-7.87	-8.27	-7.53	-6.71	-7.15	-8.08
ESSENTIAL COMM	17.63	8.33	13.08	14.73	15.08	15.93	16.88	17.54	17.06	17.33

*: Composite index of WPI

Divergence between WPI and CPI inflation

The divergence between WPI and CPI inflation rates became more pronounced in 2009-10, with inflation in the WPI turning negative, while in the CPI, it ranged from 8.6-12.7 per cent. This is in contrast to the historical trend when CPI inflation tracked WPI inflation, although with a lag, as retail price changes followed wholesale price changes. Recently, CPI inflation has remained stubborn at elevated levels due to increased prices of food items, which have a higher weight in the CPI basket than in the WPI. CPI inflation tracks the essential commodities component of WPI inflation quite closely (Table 3). The divergence in the price indices increases the complexity of inflation assessment.

The seasonally adjusted inflation in WPI which foreshadows coming trends in WPI inflation and, which had been negative from September 2008 to February 2009, turned positive in March 2009 and continues so, indicative of rising inflation in the months ahead.

Month-Year	Overall WPI	Seasonally adjusted WPI	WPI-essential*	CPI-IW	CPI-RL
Aug-08	12.82	7.44	7.61	9.02	10.29
Sep-08	12.27	-2.06	7.84	9.77	10.98
Oct-08	11.06	-6.32	8.41	10.45	11.14
Nov-08	8.48	-17.76	8.66	10.45	11.11
Dec-08	6.19	-13.35	9.36	9.70	11.14
Jan-09	4.90	-3.44	9.85	10.45	11.35
Feb-09	3.50	-5.47	10.75	9.63	10.79
Mar-09	1.20	1.97	9.63	8.03	9.69
Apr-09	1.31	9.19	10.33	8.70	9.09
May-09	1.38	10.11	11.88	8.63	10.21
Jun-09	-1.01	2.41	13.24	9.29	11.26
Jul-09	-0.67	13.28	15.33	11.89	12.67
Aug-09	-0.91(P)	5.55(P)	15.19(P)	11.72	12.67
Sep-09	0.50(P)	16.02(P)	16.85(P)	NR	NR

P-Provisional *: Sub-set of WPI NR: Not reported

Outlook on inflation

The seasonally adjusted inflation in WPI (based on seasonal factors published by RBI) foreshadows coming trends in WPI inflation. This has been negative from September 2008 to February 2009, but turned positive in March 2009 and continues so, and is therefore indicative of rising inflation in the months ahead.

Fiscal Position

Progress in the post-FRBMA period 2003-04 to 2007-08 was satisfactory and in broad compliance with the targets set under the Fiscal Responsibility and Budget Management Act (FRBMA) 2003. Central government's fiscal deficit which was 4.5 per cent of GDP in 2003-04 was brought down successively to 2.7 per cent of GDP in 2007-08 on a cash basis. As per FRBMA, the fiscal deficit target for 2008-09 was 3 per cent of GDP and the Budget for 2008-09 envisaged a fiscal deficit of 2.5 per cent of GDP. The unusual developments during 2008-09 necessitated deviation from the above. The sharp rise in global commodity price rise, particularly oil prices led to higher budgetary outgo on account of subsidy on Fertilisers and a sharp increase in below the line financing through bonds to oil marketing companies. The rise in food subsidies had also to be accommodated. These were included in the Supplementary Demands for Grants. The global financial meltdown necessitated the taking of pro-active measures, particularly fiscal measures (by way of stimulus packages) that inter alia included reduction in duties and taxes to safeguard the productive base of the economy and hike in expenditure particularly Plan expenditure. These new commitments came on top of the first instalment of 40 per cent of the dues to government employees released in September 2008 consequent to the implementation of the 6th Pay Commission recommendations and commitments on account of the farm loan waiver. Hence, the sharp fiscal expansion in 2008-09 to a level of 6.2 per cent of GDP (Table below).

Table 1: Major Deficit Indicators of Union Government (As percent of GDP)			
Year	Gross Fiscal Deficit	Revenue Deficit	Primary Deficit
<i>1</i>	<i>2</i>	<i>3</i>	<i>4</i>
2003-04	4.5	3.6	0.0
2004-05	4.0	2.5	0.0
2005-06	4.1	2.6	0.4
2006-07	3.5	1.9	-0.2
2007-08	2.7	1.1	-0.9
2008-09 (P)	6.2	4.6	2.6
2009-10 (BE)	6.8	4.8	3.0
Negative - sign indicates surplus in deficit indicators.			
Revenue deficit is the difference between revenue expenditure and revenue receipts.			
Gross fiscal deficit is aggregate disbursements net of debt repayments less revenue receipts, non-debt capital receipts and recovery of loans and advances.			
Primary deficit is gross fiscal deficit less of interest payments.			
B E= Budget estimates; P=Provisional Actuals.			
Source: Budget 2009-10- Budget at a Glance and Review of Government Accounts, 2008-09.			

The impact of this expansionary policy could be gauged in terms the three main components of demand, namely, relative share growth and point contribution to growth. In the period 2003-04 to 2007-08, the higher growth trajectory of the Indian economy was due to rise in both consumption and investment demand. In 2008-09, there was a sharp deceleration in the growth in private consumption demand to 2.9 per cent from 8.5 per cent in 2007-08. The share of private consumption was at 57.2 per cent and Government consumption at 9.8 per cent in the GDP at current market prices in 2007-08. In real terms, thus contribution of private consumption expenditure halved in 2008-09 to 27.0 per cent and that of Government consumption expenditure rose to 32.5 per cent (as against 8 per cent in 2007-08). This helped arrest decline in GDP in 3rd and 4th quarters and help in achieving a growth of 6.7 per cent for 2008-09 as a whole, which vindicates the policy stance followed.

The Budget for 2009-10 has carried forward this policy through a fiscal expansion of 4.1 per cent of GDP (over 2007-08 levels). These levels of expansion are short-term responses (conform to international best practices) and are not sustainable on a long-term basis. To address such concerns, the Medium Term Fiscal Policy Statement 2009-10 has provided the roadmap with fiscal deficit declining to 5.5 per cent of GDP in 2010-11 and further to 4.0 per cent of GDP in 2011-12. The 13th Finance Commission, which is scheduled to submit its Report later this year, will lay down the roadmap for fiscal consolidation for both the Centre and States for the next 5 years.

As per the latest data on Union finances released by the Controller General of Accounts, the following were key results in the first 5 months of April - August 2009,

- Revenue Receipts (net to Centre) at Rs.157198 crore registered a decline of 2.7 per cent as against Rs. 161511 crore in the same period of last year.
- Gross tax revenue at Rs.168276 crore declined by 11.6 per cent compared to similar period last year.
- Tax revenue (net to Centre) at Rs.106837 crore during April-August, 2009 registered a decline of 14.8 per cent as against Rs. 125436 crore in the same period of last year.
- Non-tax revenue at Rs. 50361 crore registered a growth of 39.6 per cent over Rs 36075 crore during similar period last year.
- Non-interest non-plan revenue expenditure recorded an increase of 30.1 per cent over similar period last year.
- Plan expenditure has recorded a growth of 13.2 per cent with revenue account showing an increase of 14.2 per cent and capital account grew at 7.1 per cent..
- Total expenditure at Rs. 343323 crore has shown a growth of 22.8 per cent during April-August 2009 compared with similar period last year.
- Revenue deficit has increased by 58.4 per cent and constitutes 54.9 per cent of 2009-10(BE).
- Fiscal deficit during April-August, 2009 at Rs. 182290 crore has increased by 56 per cent compared to similar period last year constituting 45.5 per cent of 2009-10(BE).

Agriculture & Food

As per the Revised Estimates (RE) of Central Statistical Organization for the year 2008-09, the agricultural sector contributed about 17 per cent to the GDP. However, the contribution of the agricultural sector to GDP has been declining being mostly appropriated by the services sector. Nonetheless, agriculture sector continues to be extremely important for the economy particularly in view of the fact that about 52 percent of the labour force

continues to depend on this sector and therefore takes the centre stage in the Government agenda for inclusive growth.

Quarterly estimates of GDP (Q1) in Agriculture, Forestry & Fishing in April

As per the Quarterly estimates of GDP by economic activity released by the Central Statistical Organization, the growth originating from Agriculture & Allied activities during April – June 2009(Q1) in 2009-10 has been 2.4 per cent as compared to 3.0 per cent during the corresponding period of last year. The agricultural growth of 2.4 per cent has been compiled based on growth in production estimates of rice (3.8 per cent), wheat(2.6 per cent), coarse cereals(25.6 per cent) and pulses (18.2 per cent), for Rabi season (2008/09) ending June over the production in the corresponding season of previous agriculture year.

Agriculture Production

As per the 4th Advance Estimates released in July 2009 by the Department of Agriculture & Cooperation, total food grain production is estimated at 233.88 million tonnes in 2008-09, which is higher by 1.34 percent as compared to 2007-08 final estimates (Table 1). In absolute terms, the increase is of the order of 3.10 million tonnes. While the production of kharif foodgrains is expected to be 117.70 million tonnes which is lower by (-) 2.69 per cent, the production of rabi crops is expected to be 116.18 million tonnes which is higher by 5.78 per cent.

This needs to be viewed from the backdrop that the average annual increase of over 10 million tonnes has been recorded consecutively for the years 2004-05, 2005-06, and 2006-07. Much of the increase in 2008-09 could be attributed to increase in the output estimates of wheat, rice, gram, maize, barley and cereals as detailed below:

Output Estimates (Million Tonnes)				
Crop	2007-08 (final estimates)	2008-09(4 th Advance Estimates)	Targets	% increase over final estimate 2007-08
Rice	96.69	99.15	97.00	2.54
Wheat	78.57	80.58	78.50	2.56
Gram	5.75	7.05	6.20	22.61
Maize	18.96	19.29	19.50	1.74
Barley	1.20	1.54	1.50	28.33
Cereals	216.02	219.21	217.50	1.48

While the food grain output estimates has been revised upwards at 233.88 million tonnes, which is more than the final estimates of 2007-08, the production estimates of major oilseeds and cotton, jute & mesta and sugarcane has been revised downwards as compared to the final estimates of 2007-08.

Oilseeds:

The 4th advance estimates of 2008-09 put the production of nine major oilseeds at 281.57 million tones, which is 5.37 per cent lower as compared to the final estimates of 2007-08. In absolute terms, the decline is of the order of 15.98 million tones. This is on account of decreases in the production estimates of groundnut, sesamum, linseed, safflower, sunflower, soya bean to the tune of 20.08 percent, 3.17 percent, 4.91 percent, 20.00 percent, 14.42 percent and 9.73 percent respectively. However, increase in production is estimated in the case of castorseed, nigerseed, rapeseed to the tune of 5.89 percent, 4.55 per cent and 26.29 per cent respectively.

Cotton, Jute, Sugarcane

As per the 4th Advance Estimates of 2008-09, the production of Cotton, Jute & Mesta and Sugarcane are estimated to be lower than the final estimates of 2007-08 as well as the targeted production levels for 2008-09. The percentage decline in respect of production of Cotton, Jute & Mesta and Sugarcane are of the order of 10.54, 7.17 and 22.10 respectively.

Situation arising out of drought/deficit rainfall:

The year 2009 has been a very difficult year for the agriculture sector and in turn for the economy. The cumulative seasonal rainfall (1st June -30th September 2009) for the country as a whole has been 23% below the Long Period Average (LPA). The year 2009 is the most deficient year after 1972.

The water storage position is also a matter of concern. The live storage in 81 major reservoirs as on 1.10.2009 stands at 90 billion cubic meters (BCM) (60% of the storage capacity at FRL), which is 75% of the last year's storage and 67% of the average of last 10 year's storage. Hence the effects of drought may be experienced in the coming quarterly GDP estimates, due to poor monsoon, loss in standing crops, drop in sowing area for Kharif (2009/10). Various State Governments had to declare drought due to drought situation in the country. 299 districts out of 360 districts were declared drought hit as on 1.10. 2009.

Crop	2004-05	2005-06	2006-07	2007-08		2008-09	
				4th Advance Estimates	Final Estimates	Targets	4th Advance Estimates
Rice	83.13	91.79	93.35	96.43	96.69	97.00	99.15
Kharif	72.23	78.27	80.17	82.81	82.66	83.00	84.58
Rabi	10.90	13.52	13.18	13.62	14.03	14.00	14.57
Wheat	68.64	69.35	75.81	78.40	78.57	78.50	80.58
Coarse Cereals	33.46	34.06	33.92	40.73	40.76	42	39.48
Kharif	26.36	26.73	25.61	31.70	31.89	32.60	28.34
Rabi	7.10	7.33	8.31	9.03	8.87	9.40	11.14
Pulses	13.13	13.39	14.20	15.11	14.76	15.50	14.66
Kharif	4.72	4.87	4.80	6.45	6.40	5.94	4.78
Rabi	8.41	8.52	9.40	8.66	8.36	9.56	9.88
Foodgrains	198.36	208.60	217.28	230.67	230.78	233.00	233.88
Kharif	103.31	109.87	110.57	120.96	120.95	121.54	117.70
Rabi	95.05	98.73	106.71	109.71	109.83	111.46	116.18
Oilseeds	24.35	27.98	24.29	28.83	29.76	31.75	28.16
Kharif	14.15	16.77	14.01	19.84	20.71	19.95	17.88
Rabi	10.21	11.21	10.28	8.98	9.04	11.80	10.28
Cotton #	16.43	18.50	22.63	25.81	25.88	26.00	23.16
Jute & Mesta ##	10.27	10.84	11.27	11.18	11.21	11.00	10.41
Sugarcane (Cane)	237.09	281.17	355.52	340.56	348.19	340.00	271.25

#Lakh bales of 170 kgs each; ## Lakh bales of 180 Kgs each

The adverse rainfall condition has mainly affected the area sown under coarse cereals mainly paddy, oilseeds, sugarcane. However, the acreage of pulses shows a positive trend. Government has taken several steps such as the scheme of Diesel Subsidy for drought and deficit rainfall affected areas has been announced for the drought affected States and districts with deficit rainfall of more than 50% as on 15th July, 2009, for the period upto 30/9/09; allocation of additional quantities of seeds to support alternate crop plan; ensuring adequate availability of fertilizers in the areas receiving good rainfall to enhance productivity and

production; Providing flexibility to the States to utilize funds allocated under RKVY to meet agricultural contingent situations; Issue of advisories to farmers, etc.

The two day National Conference on Agriculture for Rabi Campaign-2009 concluded on 25.9.09 took note of the drought situation in the country and production losses in the kharif season. It resolved to take advance action to produce an additional 80 lakh tonnes of foodgrains and 12 lakh tonnes of oilseeds during the ensuing Rabi season.

As an important step to assure better remuneration to the farmers, the Central Government has announced the Minimum Support Prices (MSP) for kharif crops 2009-10 in August 2009, with a substantial rise for various crops. Among food grains, MSP of paddy-common and grade 'A' - have been increased by Rs.100 (to Rs.950 and Rs.980 respectively), arhar by Rs.300 (to Rs.2300), moong by Rs.240 (to Rs.2760) etc.

Further, the Government is committed to ensuring food security to all its citizens. National Food Security Mission and Rashtriya Krishi Vikas Yojana were launched by the Government to increase production and productivity of foodgrains. It is also Government's commitment to enact the National Food Security Act to provide by law, food security to the citizens of the country. The consultation process on this issue is under progress.

Industry and Infrastructure

The industrial sector witnessed a sharp slowdown during 2008-09 as a consequence of successive shocks, the most important being the knock on effects of the global financial crisis. Though the growth of the industrial sector started to slowdown in the first half of 2007-08, the overall growth during that year remained as high as 8.5 per cent. The industrial sector slowed down sharply in the second half of 2008-09 with the sudden worsening of the international financial situation and of the global economic outlook. The year 2008-09 thus closed with the industrial growth at only 2.6 per cent as per the Index of Industrial Production (IIP). The industrial growth remained subdued for the first two months of the current financial year. The growth in IIP started reviving during the months of June and July 2009, with rates of growth increasing to 8.2% and 7.2% respectively.

Overall growth of industry

As per CSO press note dated 12th October 2009, the IIP grew at 10.4% in August 2009 as compared to 1.7% in August 2008. During April-August 2009-10, IIP growth was 5.8% compared to 4.8% during April-August 08-09. The growth in IIP during June and July 2009 was 8.2% and 7.2% respectively. High growth witnessed for the third month in succession is indicative of the continuance of industrial recovery.

Sector-wise Growth

All the three major sectors- Mining, Manufacturing and Electricity- have done well in August, 2009. The manufacturing sector grew at 10.2% in August 2009 and 5.5% during April-August 2009-10 compared to 1.7% in August 2008 and 5.1% during April-August 2008-09. Mining grew at 12.9% in August 2009 and at 8.4% during April-August 2009-10 as compared to 2.8% in August 2008 and 3.5% in the period of April-August 2008-

09. The Electricity sector grew at 10.6% in August 2009 and 6.6% during April-August 2009-10 compared to 0.8% in August 2008 and 2.3% during April-August 2008-09.

Use-based industrial groups

Among the use based categories, consumer durables, intermediate goods and basic goods registered strong growth in August 2009 as compared to August 2008. Basic Goods grew at 10.0% in August 2009 and at 6.7% in April-August 2009-10 as compared to 3.9% and 3.7% respectively during the corresponding periods in the previous year. The robust growth in basic goods has been aided by 10% plus growth in electricity and mining, which constitute much of their weight. Capital Goods growth was 8.3% in August 2009 and 3.2% during April-August 2009-10 as against 0.9% in August 2008 and 8.3% in April-August 2008-09. The robust growth in intermediate goods is the single most important signal of a recovery in the industrial sector. Intermediate Goods grew at 14.3% in August, 2009 and 9.2% during April-August 2009-10 as against a very low base of -5.5% in August 2008 and 1.0% in April-August 2008-09.

Consumer goods consisting of durables and non-durables grew at 8.5% in August 2009 and 3.1% in April-August 2009-10 as compared to 6.4% in August 2008 and 7.6% during April-August 2008-09. The recovery on the demand side is evident from the sustained robust growth in consumer durables, which grew by 22.3% in August 2009 and 18.1% during April-August 2009-10 as compared to the growth of 3.9% in August 2008 and 5.7% during April-August 2008-09. Consumer non-durables grew at 3.7% in August 2009 and -1.5% during April-August 2009-10 as compared to 7.3% in August 2008 and 8.3% during April-August 2008-09.

Industry Group	Weight	August 08	August 09	April-August 2008-09	April-August 2009-10
Mining	104.7	2.8	12.9	3.5	8.4
Manufacturing	793.6	1.7	10.2	5.1	5.5
Electricity	101.7	0.8	10.6	2.3	6.6
Growth by use-based industrial groups					
Basic Goods	355.7	3.9	10.0	3.7	6.7
Capital Goods	92.6	0.9	8.3	8.3	3.2
Intermediate Goods	265.1	-5.5	14.3	1.0	9.2
Consumer Goods	286.6	6.4	8.5	7.6	3.1
Durables	53.7	3.9	22.3	5.7	18.1
Non-durables	233.0	7.3	3.7	8.3	-1.5
General Index	1000	1.7	10.4	4.8	5.8

Growth in two-digit level industrial groups: In August 2009, 14 out of 17 industry groups at the two digit level recorded positive growth. The strong growth pattern seen at the disaggregated level is evident from the fact that while 6 industrial groups showed 10% plus growth, three groups- food products, jute textiles and wood products- showed negative growth and another three groups showed growth below 2% in August 2009. Importantly, Machinery & equipment and transport equipment showed strong growth, while chemicals and chemical products have shown clear acceleration in growth in August 09.

Category (2 digit)	Wt.	August		April-August	
		2008	2009	2008-09	2009-10
Food Products	90.8	10.1	-9.6	-2.5	-12.6
Beverages, Tobacco	23.8	5.2	1.1	22.2	-3.3
Cotton Textiles	55.2	-3.0	5.0	1.2	0.7
wool, silk & m-m textiles	22.6	-13.7	15.7	-1.2	11.9
Jute Textiles	5.9	-7.6	-10.2	-6.5	-16.4
Textile Products	25.4	-2.6	16.4	4.7	9.5
Wood Products	27	10.2	-3.6	-6.7	11.8
Paper Products	26.5	3.9	1.9	3.1	2.7
Leather Products	11.4	-8.7	1.2	0.8	1.3
Chemicals	140	2.2	14.7	8.1	5.0
Rubber & Petroleum	57.3	-8.6	21.5	-4.2	13.2
Non-Met Min Products	44	-1.6	7.4	0.7	7.6
Basic Metals	74.5	9.0	8.5	6.6	7.1
Metal Products	28.1	-16.7	3.4	-0.8	-0.2
Machinery & Equipments	95.7	4.4	14.2	8.3	9.5
Transport Equipments	39.8	7.3	13.8	11.2	9.1
Miscellaneous manufacturing	25.6	-5.4	10.6	-4.0	10.8
Manufacturing	793.6	1.7	10.2	5.2	5.5

Six core infrastructure supportive industries

Core infrastructure-supportive sectors achieved growth rate of 7.1 per cent during August 2009 as compared to a growth of 2.1 per cent in August, 2008. These sectors grew at 4.8 per cent during April-August 2009, compared to 3.3 per cent during April-August, 2008. The growth of key infrastructure-supportive sectors like electricity, cement and coal has remained robust in the current year, as seen from Table 3 below.

Sector	Weight (%)	August 2008	August 2009	Apr-August 2008-09	Apr-August 2009-10
Crude Oil	4.17	-1.0	-2.6	-0.9	-1.3
Petro Refinery Products	2.00	2.5	3.0	4.8	-4.9
Coal	3.22	5.9	12.9	7.3	12.4
Electricity	10.17	0.8	9.8 ⁽¹⁾	2.2	6.4
Cement	1.99	1.9	17.6	5.0	13.5
Finished steel (carbon)	5.13	3.4	3.1	3.5	2.6
Overall	26.68	2.1	7.1	3.3	4.8

(¹): This will not necessarily match the growth in electricity given in the Index of Industrial Production

Industrial Investment

The healthy growth in capital goods of 8.3% during August 2009 also points to a revival in investment. Besides this, the inflows of foreign direct investment have sustained during the current year. The FDI inflows during April-August 2009 was US\$16.2 billion, compared to US \$16.7 billion during the corresponding period in the previous year. During August 2009, the FDI inflows were US\$ 3.3 billion, compared to US\$ 2.3 billion during August 2008. Moreover, indications are that the mobilization of resources from the primary market is also picking up.

On the whole, the continuance of the industrial recovery is visible from the all round growth in different product groups. IIP has recorded three months of healthy growth from June to August 2009, with rate of growth crossing 10% in August 09. The continuance of the industrial recovery in terms of demand and production is manifest in the accelerated growth in consumer durables, intermediate goods and basic goods.

Exports and Imports

India's greater integration with the world economy is reflected by the trade openness indicator, merchandise trade as a percentage of GDP, which increased from 23.7 percent of GDP in 2003-04, to 35.3 percent in 2007-08 and further to 41 percent of GDP in 2008-09. If services trade is included, the indicator is higher at 54.2 percent in 2008-09 compared to 30.9 percent in 2003-04, reflecting greater degree of openness.

India's trade performance during 2008-09

For the year 2008-09, an export target of US\$ 200 billion was set initially, later it was revised to US\$ 175 billion. As per the latest data, during 2008-09, the value of merchandise exports reached US\$ 182.63 billion with a growth of 12.05 per cent despite global recession, thus achieving more than the revised export target. Export growth was robust till August 2008, it became low in September and became negative from October 2008 to March 2009 due to the global recession. The main drivers of export growth during 2008-09 are gems and jewellery, engineering goods, chemicals and related products, electronic goods and agriculture and allied products. Textiles (excluding handicrafts) and leather exports witnessed a positive but low growth while petroleum products, handicrafts, ores and minerals and marine products exports registered negative growth.

During 2008-09 import growth was subdued at 15.9 per cent with growth in both POL and non-POL imports moderating to 14.6 percent and 16.5 percent respectively. However as the world recession worsened and import growth became negative from January to March 2009; negative growth was registered in both POL and Non-POL imports in the last quarter of 2008-09.

During this year high import growth was registered by fertilizers (151 percent) and edible oils (34.32 percent) to meet domestic demand; POL (14.57 percent) due to the unusually high rise in prices in the first half of 2008-09; pearls precious and semi precious stones (81 percent) due to revival of gems and jewellery exports. Cereals import growth was highly negative. Trade deficit, as per customs data, increased by 34.4 percent to US\$ 119 billion in 2008-09.

India's trade performance during 2009-10

The major Trade indicators for August, 2009 and April-August, 2009 are given in the following table:

	Growth rate % (in US dollars)	
	August, 2009	April-August, 2009
Exports	-19.4	-31.0
Imports	-32.4	-33.4
POL Imports	-45.5	-47.4
Non-POL Imports	-25.5	-25.9
Trade Deficit	-47.0	-37.1

During 2009-10 (April-August), exports were valued at US \$ 64129 million, which was 31 per cent lower than the level of US \$ 92959 million in 2008-09 (April-August). The negative export growth which began in October, 2009 continued even in August, 2009 with export growth at -19.4 percent. Imports during 2009-10 (April-August), were at US \$ 102300 million, which was (-) 33.4 per cent lower than the level of US \$ 153691 million in 2008-09 (April-August). Import growth in August 2009 declined to (-) 32.4 percent compared to August 2008. POL imports during 2009-10 (April-August) were valued at US \$ 28275 million, which was 47.4 per cent lower than the level of US \$ 53742 million in 2008-09 (April-August). POL imports growth in August 2009 declined to (-) 45.5 percent. POL imports have also witnessing a negative growth since December 2008 onwards. Non-POL Imports during 2009-10 (April-August), were at US \$ 74024 million, which was 25.9 per cent lower than the level of US \$ 99949 million in 2008-09 (April-August). Non POL imports growth in August 2009 has declined to (-) 25.5 percent. Its growth was positive upto December 2008. Thereafter it witnessed a negative growth.

Trade Deficit for 2009-10 (April-August) was valued at US \$ 38171 million which was 37 percent lower than the level of US \$ 60732 million in 2008-09 (April-August).

Policy Measures taken

As there was concern on possible adverse impact of the global recession on the Indian economy, to help export sector in general and some sectors affected or likely to be affected by the global recession in particular. Many measures were taken including the three stimulus packages announced in 2008-09, the measures in the Union Budget 2009-10 and Foreign Trade Policy. These include the following:

- (i) Interest subvention of 2 per cent from 1.12.2008 to 30.9.2009 to the labour intensive sectors of exports such as textiles (including handloom), handicrafts, carpets, leather, gems and jewellery, marine products and small and medium enterprises. This was further extended to March 2010.
- (ii) Inclusion of handicrafts items in Vishesh Krishi and Gram Udyog Yojana (VKGUY);
- (iii) Provision of additional Rs. 1,100 crore to ensure full refund of claims of CST/terminal excise duty/duty drawback on deemed exports.
- (iv) Restoration of DEPB rates for all items where they were reduced in November 2008 and increase in duty drawback rates on certain items effective from September 1, 2008.
- (v) Provision of additional funds of Rs. 1,400 crore for textile sector to clear the backlog claims of Technology Upgradation Fund (TUF).
- (vi) Excise duty reduced across the board by 4 per cent for all products except petroleum products and those products where current rate was less than 4 per cent.
- (vii) Extension of the adjustment assistance scheme to provide enhanced Export Credit Guarantee Corporation (ECGC) cover at 95% to badly hit sectors upto March 2010.
- (viii) Section 10A and 10B related to Sunset clauses for STPI and EOUs schemes respectively extended for the financial year 2010-2011. Anomaly removed in Section 10AA related to taxation benefit of 'unit vis-à-vis assessee';

- (ix) Additional items allowed within the existing duty free imports entitlement for the following employment oriented sectors;
 - a) 5 additional items for sports goods sector;
 - b) Additional items for leather garments and footwear and textile items.
- (x) Measures related to service tax which include, among others, exemption from service tax on following services linked to exports;
 - a) service related to transport of export goods by road from any CFS or ICD to the port or Airport and on service related to transport of export goods by road directly from their place of removal, to an ICD, a CFS, a port or airport;
 - b) services provided by Foreign Agent Commission service.
- (xi) Extension of DEPB scheme upto December 2010.
- (xii) Diversification of exports to emerging markets of Africa, Latin America, Oceania and CIS countries under Focus Market Scheme and Market Linked Focus Product Scheme.
- (xiii) Setting up a Directorate of Trade Remedy Measures to support Indian industry and exporters especially the MSMEs, in availing their rights through trade remedy instruments under the WTO framework.
- (xiv) Plan to establish more diamond bourses to make India an international diamond trading hub.
- (xv) Additional resources under MDA and MAI.

Foreign Trade Policy 2009-14

The Foreign Trade Policy 2009-14, has been released on 27.8.2009. Some important announcements in the foreign trade sector are as follows

- Aim to achieve an annual export growth of 15 per cent over 2010-11 with an annual export target of US\$ 200 billion by March 2011. In the remaining three years of this Foreign Trade Policy, the country should be able to come back on the high export growth path of around 25 per cent per annum. The long term policy objective for the Government is to double India's share in global trade by 2020.
- A special thrust to the employment oriented sectors which have witnessed job losses in the wake of recession especially in the field of textiles, leather, handicrafts, etc.
- Extension of DEPB scheme upto December 2010.
- Encouraging value addition in manufactured exports by stipulating a minimum 15 per cent value addition on imported inputs under advanced authorization scheme.
- Diversification of exports to emerging markets of Africa, Latin America, Oceania and CIS countries under Focus Market Scheme and Market Linked Focus Product Scheme.
- Promoting "Brand India" through six, or more 'Made in India' shows to be organized across the world every year.
- Promoting Technological upgradation by importing imports of capital goods for certain sectors like engineering & electronic products, basic chemicals and pharmaceuticals, apparels & textiles, plastics, handicrafts, chemicals and allied products and leather and leather products under EPCG at zero percent duty. Besides for 'status holders' additional duty credit scrips @ 1 per cent of FOB value of past exports will be given for procurement of capital goods with actual user condition.
- Setting up a Directorate of Trade Remedy Measures to support Indian industry and exporters especially the MSMEs, in availing their rights through trade remedy instruments under the WTO framework.

- Implementing E-Trade project by enabling additional ports/locations under the EDI in the next few years.
- Plan to establish more diamond bourses to make India an international diamond trading hub.
- Additional resources under MDA and MAI.

Employment and Social Sector

Estimates on employment and unemployment are based on the latest quinquennial round(61st round) of NSSO in 2004-05. They indicate that employment growth during 1999-2000 to 2004-05 accelerated significantly as compared to the growth witnessed during 1993-94 to 1999-2000. Employment growth accelerated from 1.25 per cent per annum to 2.62 per cent per annum. However, since the labour force grew at a faster rate of 2.84 per cent than the workforce, unemployment rate also rose. The incidence of unemployment on CDS basis increased from 7.31 per cent in 1999-00 to 8.28 per cent in 2004-05.

The employment growth in organized sector, public and private combined, has declined during the period between 1994 and 2006. This has primarily happened due to decline of employment in organized public sector. Employment in establishments covered by Employment Market Information System of the Ministry of Labour & Employment grew at 1.20 per cent per annum during 1983-94 but decelerated to 0.12 per cent per annum during 1994-2006. However, the latter decline was mainly due to a decrease in employment in public sector establishments, whereas the private sector had shown acceleration in the pace of growth in employment from 0.44 per cent to 0.92 per cent per annum.

Labour Bureau under the Ministry of Labour & Employment has recently released a quarterly report on effect of Economic Slowdown on Employment in India during April-June, 2009. This is the third in the series of quarterly reports on effect of economic slowdown on employment in India. Main features of the report are: During the survey, 3,003 units are covered in 21 centres spread across eleven States.

- In the current survey eight sectors viz. Textiles, Metals, Leather, Automobiles, Gems & Jewellery, Transport, IT/BPO and Handloom/Power-loom are covered.
- At overall level, the employment has declined by 1.31 lakh during April-June, 2009 over March, 2009.
- The most affected sectors are the export oriented units especially in Textiles and Gems & Jewellery.
- In the non-exporting units, the employment has in fact increased slightly during the period under study.

Flagship Programmes

In pursuance of the objective of inclusive growth, Government has been implementing eight flagship programmes supported by sizeable outlays. These include National Rural Employment Guarantee Scheme(NREGS), National Rural Health Mission(NRHM) and Sarva Shiksha Abhiyan(SSA), Mid-day Meal(MMS), Integrated Rural Development Services(ICDS), Jawaharlal Nehru National Urban Renewal Mission(JNNURM), Rajiv Gandhi Drinking Water Mission and the Total Sanitation Campaign. Together, these flagship programmes aim to improve the livelihood of people as well as provide them with easy access to basic facilities like

education, health, clean drinking water and sanitation. Besides, Bharat Nirman, which is an important programme to improve the quality of life and mainstreaming of rural population has received high priority. Budgetary outlay for Bharat Nirman was increased by 45 percent in 2009-10 over the budgetary allocation in 2008-09.

Under Pradhan Mantri Gram Sadak Yojana (PMGSY), upto July, 2009, the total achievement of 5539.93 km of new connectivity of road under Bharat Nirman was made against a target of 24,000 km for the year. The achievement of upgradation and renewal was 9299.42 km and 4211.41 km respectively, totaling 13510.83 km against a target of 16000 km for the year.

Addressing housing shortage is an important strategy of poverty alleviation in India. It has been estimated that as in 2009, the rural housing shortage on account of houselessness and for replacement of Kutcha houses is 281 lakhs. The Bharat Nirman Programme has recognized and accorded due priority to the need to end shelterlessness. During 2008-09, against the total allocation of Rs.5,645.77 crore earmarked for release to DRDAs under IAY for construction of 21.27 lakh houses, Rs.8,795.79 crore including Rs.3,050 crore given under stimulus package has been released till March 31, 2009 and 21.05 lakh houses had been constructed during 2008-09. In the first phase of Bharat Nirman programme, 60 lakh houses were envisaged to be constructed over four years i.e. from 2005-06 to 2008-2009. As against this target, 71.76 lakh houses were constructed thereby exceeding the target of Bharat Nirman. It has now been proposed to double this figure and to construct 120 lakh houses during the next five years period starting from the current year 2009-10.

Ministry of Power launched Rajiv Gandhi Grameen Vidyutikaran Yojana (RGGVY) as one of its flagship programme in March 2005 with an objective to electrify over one lakh un-electrified villages and to provide free electricity connections to 2.34 Crore rural BPL households. This programme has been brought under the ambit of Bharat Nirman. So far, Ministry of Power has sanctioned 568 projects for 540 districts to electrify 118,533 villages and to provide free electricity connections to 2.46 Crore BPL rural households. As on 31st August 2009, 64,331 villages have been electrified and 68.97 lakh free electricity connections have been released to BPL households. It is targeted to complete all the sanctioned projects before March 2012.

NREGS, which was launched on February 2, 2006, in 200 most backward districts in the first phase was expanded to 330 districts in the second phase during 2007-08. The remaining 266 districts were notified on September 28, 2008, and the scheme has now been extended to all the districts of the country. Under the programme in 2007-08, 3.39 crore households were provided employment in 330 districts. In 2008-2009, 4.47 crore households were provided employment and 215.63 crore person days have been generated. In 2009-10, upto 05.10.2009, 3.05 crore households had been provided employment and 118.56 crore person days were generated of which 30 percent went to SCs, 22 percent to STs and 51 percent to women.

The Right to Education Act 2009

The Right of Children to Free and Compulsory Education Act, 2009 to provide for free and compulsory education to all children of the age of 6 to 14 years received the assent of the President on the 26th August, 2009. The Central Government and the State Government shall have concurrent responsibility for providing funds for carrying out the provisions of this Act.

Unique Identification Authority of India (UIDAI)

The Cabinet on 25th June, 2009 approved the creation of the position of Chairperson, Unique Identification Authority of India (UIDAI). Shri Nandan Nilekani later joined the UIDAI as Chairperson in the rank of Cabinet Minister. Prime Minister on August 3, 2009 has also constituted a Council under his chairmanship to advise the Unique Identification Authority of India (UIDAI) and ensure coordination between the Ministries, stakeholders and partners. The Council will advise the UIDAI on the programme, methodology and implementation to ensure coordination between Ministries/Departments, Stakeholders and Partners. The Council will also identify specific milestones for early completion of the project.

Lack of identity proof results in harassments and denial of services to the poor and marginalized. It also results in leakages in various programs of the Government which seek to target to poor. Providing identities to the poor and the marginalized through UIDAI will enhance their access to Government services, both at State level and Centre and will enable delivery of direct benefits to poor and under-served. Specifically it will improve the delivery of the flagship of the scheme of the Central Government.

National Mission on Enhanced Energy Efficiency

The Prime Minister's Council on Climate Change on 24th August, 2009 approved “in principle” the National Mission on Enhanced Energy Efficiency. This Mission will enable about Rs. 75,000 crore worth of transactions in energy efficiency. In doing so, it will, by 2015, help save about 5 per cent of country’s annual energy consumption, and nearly 100 million tonnes of carbon dioxide every year. The Mission is the second of the eight missions under India's National Action Plan on Climate Change to be approved by the Council. The National Solar Mission was approved earlier.

The global dimension of the challenge of climate change, demands a global and cooperative effort on the basis of the principle of equity. India is committed to play its role as a responsible member of the international community and to make its own contribution in this area. Prime Minister on June 30th, 2008 released India's National Action Plan on Climate Change. The National Action Plan reflects the importance the Government attaches to mobilizing our nation's energies to meet the challenge of climate change. The National Action Plan focuses attention on priority National Missions. These are:

- Solar Energy
- Enhanced Energy Efficiency
- Sustainable Habitat
- Conserving Water
- Sustaining the Himalayan Ecosystem
- "Green India"
- Sustainable agriculture
- Strategic Knowledge Platform for Climate Change

The National Mission of Solar Energy occupies a pre-eminent place in the National Plan. The National Action Plan would evolve and change in the light of changing circumstances and therefore invited broader interaction with civil society as a means to further improve the various elements of the Plan. The Prime Minister's Council on Climate Change on 24th August, 2009 approved "in principle" the National Mission on Enhanced Energy Efficiency. This Mission will enable about Rs. 75,000 crore worth of transactions in energy efficiency. In doing so, it will, by 2015, help save about 5 per cent of country's annual energy consumption, and nearly 100 million tonnes of carbon dioxide every year. The Mission is the second of the eight missions under India's National Action Plan on Climate Change to be approved by the Council. The National Solar Mission was approved earlier.

BILATERAL COOPERATION

Indo-UK Bilateral Development Cooperation

The UK Government has been providing bilateral assistance to India since 1958. At present it is the largest external development partner in terms of grants. The assistance is channelised through the Department of International Development (DFID). The total amount of grants so far received from the UK till 31 March 2009 is about £ 3.718 billion.

DFID grant is primarily focused on achieving MDG objectives through implementing projects in social sectors such as education, health and family welfare, HIV/AIDS prevention and control, slum improvement, environment protection, rural livelihood and urban services for poors. The four priority States for DFID assistance are Andhra Pradesh, Madhya Pradesh, Orissa and West Bengal. Bihar has been added recently in accordance with DFID's latest Country Plan for India. However, 45-50% of its portfolio focuses on major National Programmes.

DFID supports Centrally-sponsored schemes like Sarva Shiksha Abhiyan (Phase I Pds.190 million and Phase II 150 million), National AIDS Control Programme, Phase II and Phase III (Pds. 88 and 100 million, respectively). DFID is also providing significant amount of grants for Reproductive and Child Health (RCH) –II (Pds.252 million).

At present 22 ongoing projects are receiving Financial and Technical Assistance; 15 projects are receiving Technical assistance only. The on-going projects involve a total commitment of £ 1218 million (Rs.9855 crore approx.) from DFID. During 2008-09, against the projected budget of £ 270 million, DFID disbursed £ 285 million (Rs. 2000 crore). However, the actual disbursement through GoI account was £ 227 million (Rs.1710 crore approx.). During the current FY (2009-10), DFID has disbursed £ 55.33 million (Rs.447.23million approx.) up to September 2009.

There is a healthy pipeline of new projects for DFID's assistance. Till now, 15 new project proposals are under consideration under the DEA-DFID Annual Programming Cycle seeking grant assistance of £ 485.50 mln (approx Rs. 3501 crore). DFID is also providing assistance for NGO projects. Since adoption of the new procedure (i.e. since 1.4.2004), DEA has cleared 180 NGO projects worth approximately Rs.114 crores for DFID assistance till 31.3.2008. DFID is providing assistance in the social sector through various multilateral agencies through 'Trust Funds' with World Bank, ADB, UNICEF/UNDP, etc.

New Country Plan for India

On 11 June 2008 in New Delhi DFID launched their new Country Plan for India for 2008-2015, which is aligned with the 11th Five Year Plan of GOI. DEA has given its in-principle approval to the new Country Plan. DFID has adopted 'Three Indias approach' i.e. (i) Developing

India, (ii) Poorest India, and (iii) Global India. DFID's Country Plan has four main components (i) improved basic services; (ii) promotion of inclusive growth; (iii) governance reform in projects being supported at national and state levels; and (iv) joint partnership for achievement of the MDGs globally as follow-up of the joint statement signed between the Prime Ministers of India and UK during the India-UK Summit in January 2008.

DFID is moving from more matured states of Andhra Pradesh and West Bengal to the poorer State Bihar. However, they would continue supporting programmes in Orissa and Madhya Pradesh and the Centrally Sponsored Schemes. Distribution of assistance between the National Programmes and the State sector projects will be in the ratio of 50:50. As India is expected to gain the status of Middle Income Country (MIC) by 2015, DFID proposes to shift its focus on 100 poorest districts in the country. DFID has identified Bihar as one of the poorer States wherein they are looking to enter into a strategic partnership with the Govt. of India along with other development partners through co-financing mechanism. DFID's intention of supporting poverty alleviation strategy in the Bihar is in line with DEA's stand. The issue of joint evaluation of strategic partnership in the State was also discussed during the last round of Indo-UK Economic & Financial Dialogue (EFD). Both sides welcomed multi-donor Strategic partnership for Bihar.

The 2nd round of Ministerial level meeting was held in London on 11 August 2008. The Indian delegation was led by the Finance Minister. The agenda items (i) Global Economy and Trade, (ii) Financial Service and Regulation (iii) PPP approach on Infrastructure Financing, (iv) Climate Change, (v) Low cost and low carbon car technology, (vi) Development and Poverty Reduction, were discussed. A mutually agreed Joint Statement was issued after the conclusion of the Dialogue.

Indo-German Bilateral Development Cooperation

The Federal Republic of Germany (FRG) has been providing both financial and technical assistance to India since 1958. Financial Assistance has been provided mainly as soft loan, composite loans (soft loan combined with commercial loan) as well as grants routed through KfW, the German Government's Development Bank. The technical assistance is provided in the form of grant through the GTZ- a fully-owned corporation of German Government. Indo-German Development Cooperation Programme focuses on following mutually agreed priority areas:

- i. Energy Efficiency
- ii. Environmental Policy, Protection and Sustainable use of Natural Resources
- iii. Sustainable Economic Development (Financial and Private Sector Development)

In addition, Germany has also intended to provide development assistance in the health sector for health care financing, social health insurance, prevention of pandemic and contagious diseases (HIV/AIDS, Polio) and support to related health sector reforms.

Main projects/programmes being funded under German assistance are: Energy efficiency programmes, Rural Water Supply (Rajasthan), Pulse Polio Immunization Programme, financial assistance to NABARD/SIDBI, Railway signalling, etc. The total volume of Financial Cooperation (FC) commitments from Germany upto 2008 amount to € 7.2 billion while Technical Cooperation (TC) commitments amount to € 696.5 million. German commitments since 2002-03 for FC (in €million) may be summarized as under:

(Amount in Euro million)

Sl. No.	Year	Grant	Standard loan	Reduced interest loan	Development loan	Total
1.	2002-03	14.50	35.00	9.00	-	58.50
2.	2003-04	15.30	25.20	40.00	-	80.50
3.	2004-05	19.00	30.50	43.50	-	93.00
4.	2005-06	10.00	8.00	170.00	90.00	278.00
5.	2006-07	-	30.00	106.00	-	136.00
6.	2007-08	2.20	-	189.50	80.00	271.70
7.	2008-09	13.00	6.00	323.00	-	342.00

During the Indo-German Annual Negotiations-2008 concluded on 23-25 September, 2008 the German Government has committed a total amount of €364 million (approx. Rs. 2350 crores) (including €6 million from the Reprogramme fund) that includes €16 million as technical grant. This is the largest commitment made ever by the German Government for FC projects in a year.

Indo-France Development Cooperation Programme

The Government of France has allocated French Agency for Development (Agence Francaise de Development-AfD) to commence operations in India to produce 'untied' soft loans. An Inter-governmental Agreement on India-France Development Cooperation through AfD was signed on January 25, 2008. The purpose of the Agreement is to define the general framework, institutional arrangements and fiscal aspects concerning the French Development Cooperation activities through AfD in India. Priority sectors under Indo-French Development Cooperation will be energy efficiency; renewable energy; urban public transport, preservation of biodiversity and fight against emerging and communicable diseases. The AfD has agreed to provide €120 million as line of credit to IREDA (€70 million) and SIDBI (€50 million).

Japan's Official Development Assistance

Since 2003-04, India has become the largest recipient of Japanese ODA loan. The ODA loan was operated by Japan Bank for International Cooperation (JBIC) and grant by Japan International Cooperation Agency (JICA). Since October 1, 2008 JBIC ODA wing has merged into JICA. The ODA loan commitment from Japan in FY 2008 (JPY 236.047 billion equivalent to Rs.11713.32 crores) was the highest ever ODA loan commitment from Japan to India. This was 4.84% increase from last year's ODA commitment which was JPY 225.130 billion.

During FY 2008-09, the ODA loan disbursement to India reached JPY 122.560 billion (Rs.5861.48 crores) which was 29.07% more than the previous year's disbursement (in Yen

terms). In 2009-10, till 31.8.2009, ODA loan disbursement to India is JPY 29.125 bln. (Rs.1492.31 Crores). As on 22nd September, 2009, 55 projects are under implementation with Japanese loan assistance. The loan amount committed for these projects is Yen 1053.119 billion (i.e. about Rs.54406.56 Crores at current exchange rate). Cumulative commitment of Japanese ODA loan to India has reached Yen 2898.59 billion (Rs.113209.77 Crores approx. at the current exchange rate) on commitment basis till March, 2009.

Eleven projects have been posed in the 1st batch of FY 2009 ODA package. Government of Japan has informed that they are prepared to conduct JICA's appraisal for the two projects viz., Delhi Mass Rapid Transport System Project (Phase 2) (V) and Kolkata East – West Metro Project (II).

Exchange of Notes and the loan Agreements for these projects are expected to be signed during October / November, 2009. A Bilateral Currency Swap Agreement has been signed on June 29, 2008 between the central banks of India and Japan.

Indo-US Financial & Economic Forum

The Indo-US Financial & Economic Forum was set up under the aegis of March 2000 Joint Declaration by the Indian Prime Minister and US President. The Forum provides for a general framework for facilitating regular discussion on issues surrounding financial sector developments, investment, and macroeconomic policy. The Forum envisions annual Cabinet level meetings at Finance Minister/ US Treasury Secretary level and sub-cabinet level discussions.

Under the arrangement so far four **Cabinet level and four Sub-Cabinet** level meetings have been held. The Cabinet level meetings have been held on 14th September 2000 (Washington DC) 22nd November 2002 (New Delhi), 9th November 2005 (New Delhi) and 30th October 2007 (New Delhi). The topics in the **fourth Cabinet level** meeting ranged from financial services, banking, insurance, pensions to security & corporate bond markets.

Indo-US CEO Forum

The Indo-US CEOs Forum was constituted (*during the visit of Indian Prime Minister to the US in 2005*) as part of the India-US Economic Dialogue. The **India-US CEO Forum** comprises 10 leading CEO's each from India and the US and is led by Shri Ratan Tata on the Indian side. Business and industry representatives of both countries coordinate the activities of the India-US CEO Forum. The recommendations of the Forum have helped the two Governments to take steps to improve the business environment in their respective countries. Issues such as liberalizing movement of people, strengthening of regulatory framework, participation in Infrastructure sector, banking and finance sector cooperation have been the major achievements of the Forum. The assistance extended by USAID is entirely in the form of grants. Total Number of on-going projects with USAID assistance is 8. The assistance disbursed by USAID for 2008-09 is US\$ 57.2 millions.

The U.S. Trade and Development Agency (USTDA)

USTDA has been active in a wide array of sectors, including transportation, energy, natural resources, environment, and information and communications technology. USTDA provided assistance of US\$ 3.5 million for 9 projects. In 2008-09, Ford Foundation provided assistance for 59 project proposals involving total grant of US \$ 13.4 million.

Canada under its grant assistance for local initiatives (CFLI) to India provided assistance of CAD \$ 0.47million to 12 proposals during 2008-09. International Development Research Centre (IDRC) of Canada has been supporting the research-oriented projects of Government institutions as well as NGOs in the field of agricultural, food, health, family welfare and environmental research since 1972. In 2008-09, IDRC 9 project proposals were cleared by this Ministry for CAD 0.7 million.

India's Assistance to Neighbouring Countries

India has been extending assistance to its neighbouring countries and other countries both as economic assistance and also assistance to meet natural calamities. The second one is handled mostly in MEA and the first one, excepting Bhutan, Bangladesh and Nepal, is handled in DEA. However, one LoC of US\$ 100 million has been extended to Nepal as an exception. In this field of economic assistance we have followed two approaches. One prior to 2003 and the other after 2003.

Pre-2003: The lines of credit (LoCs) were directly charged to the budget and disbursements were made through SBI. These are described as Government to Government Lines of Credit or G-to-G Lines of Credit. Excepting for one LoC (US\$ 25 million in respect of Sri Lanka), all other G to G LoCs have been fully utilized.

Post-2003: Government only pays the interest differential. The amount is disbursed by a financial institution. Only Exim Bank of India came forward to do so. Therefore, this scheme is sometimes loosely described as Government of India supported Lines of Credit through Exim Bank. We have in-house understand that we will extend such LoCs with Government guarantee within a limit of Rs. 4000 crores per year and LoCs without Government guarantee within a limit of Rs. 2000 crores per year. Unfortunately, the LoCs without Government guarantee has not taken off because most countries to whom we extend such LoCs are high-risk countries and Exim Bank is unable to extend LoCs without Government guarantee.

Performance so far:G to G LoC: A total of 83 LoCs amounting to US\$ 482.56 million (30 LoCs) and Rs. 7,021 crores (63 LoCs) for 23 countries have been extended.

GOI supported LoCs (through Exim Bank): Till 30th September, 2009, a total of 112 LoCs amounting to US\$ 4383 million has been sanctioned. Number of countries covered are 54.

The PM had announced a sum of US\$ 5.4 billion during the next five years for African countries in the Indo-Africa Summit held in New Delhi on 8-9 April, 2008 starting from the year 2009-10.

Policy initiative under the skill sector

The XI five year plan document has set the objective of creating a pool of skilled personnel in appropriate numbers with adequate skills, in line with the requirement of the users such as industry, trade and service sectors. Accordingly, it has proposed to launch a 'Skill Development Mission'. In the Mission, initiatives both from Government side and private players have been envisaged. As part of the private sector initiative, twenty one high growth sectors of industries and services have been identified, which have the ability to provide expanded employment. The NSDC is supposed to identify areas where support and supplementation will be required from the government. It was envisaged that the Corporation will be set up with Government Equity with a view to obtaining about Rs. 15,000 crore as capital from government, the public and private sectors and bilateral and multilateral sources for the promotion of skill development. The Corporation will be a public private partnership on skill development conceived as a non-profit Corporation. There may also be a National Skill Development Trust which can receive funds to be managed by the National Skill Development Corporation. The Corporation/Trust will be a flexible institutional arrangement to be able to deliver on jobs required by the market, related to its skill deficit, through training programmes operated or partnered by it. A sum of Rs 200 crore from the overall corpus of the Trust was transferred to NSDC for implementation of its work programme.

NSDC has been formally launched by the Finance Minister on October 20, 2009. On this occasion, the study conducted by ICRA on the demand supply gap for skilled man power in 12 High Growth sectors up to 2022, has been released.

Policy initiatives for Public Private Partnership in Infrastructure

For broad based and inclusive growth, Planning Commission had estimated an investment requirement of USD 500 billion during the Eleventh Five Year Plan (2007-12) for infrastructure development¹. About 1/4th of this investment is expected to be met through private investment and public private partnerships (PPPs). Approval mechanism for PPPs in the Central sector has been streamlined through setting up of Public Private Partnership Appraisal Committee (PPPAC). Since its constitution in January 2006, 135 projects have been granted approval with an estimated cost of Rs. 1,37,025.62crore.

India Infrastructure Finance Company has been set-up to facilitate access to long term resources for infrastructure development. Steps have been taken to use Foreign Exchange

¹ This implies the need for total investment in infrastructure to increase from 4.5 per cent of GDP at present to 8.0 per cent of GDP during the period 2007-12; private investment in infrastructure are expected to increase from 1.5 per cent of GDP to 4.5 per cent of GDP by 2011-12. Mckinsey in its Report 'Building India' (March, 2009) has estimated that the deficit in the targeted investment is likely to be around USD 150 billion to 190 billion in financing core infrastructure.

Reserves for building Infrastructure. IIFCL has set up an offshore SPV to utilize part of foreign exchange reserves for infrastructure development. As on 31st August 2009, term loan, amounting to Rs 18, 648 crore, for 88 infrastructure projects (with a total project cost of Rs 1, 47, 282 crore) have been sanctioned. States may indicate the facility of refinance provided by IIFCL to develop commercially viable PPP projects.

Scheme for Financial Support to PPPs in Infrastructure has been launched which provides Viability Gap Funding (VGF) to PPP projects. Since its inception in 2006, 46 PPP projects with a total project cost of Rs. 34, 028.11 crore having VGF support of Rs. 6,651.06 crore were given in principle/final approval. Of these 46 projects, 15 have been bid out. An amount of Rs. 92.37 crore has been disbursed under the VGF Scheme.

The scheme for 'India Infrastructure Project Development Fund' (IIPDF) has been launched to finance the cost incurred towards development of well structured PPP projects. Since its constitution in December 2007, 25 project proposals were given in principle/final approval with total project development cost of Rs.2147.78 lakhs and IIPDF assistance of Rs. 1639.83 lakhs. An amount of Rs.142.78 lakhs had been disbursed under the Scheme.

Capital Market

Review of ECB Policy

ECB up to USD 500 million per borrower per financial year permitted for Rupee expenditure and / or foreign currency expenditure for permissible end - uses under the Automatic Route. In addition the following has been decided:

- i. The 'all-in-cost' ceilings on such borrowing would be removed, under the approval route of RBI;
- ii. To facilitate access to funds for the housing sector, the 'development of integrated townships' would be permitted as an eligible end-use of the ECB, under the approval route of RBI;
- iii. NBFCs, dealing exclusively with infrastructure financing, would be permitted to access ECB from multilateral or bilateral financial institutions, under the approval route of RBI.
- iv. In order to give a boost to the corporate bond market, FII investment limit in rupee denominated corporate bonds in India has been increased from US \$ 6 bn to US \$ 15 bn.
- v. Extension of the relaxation on the all-in-cost ceilings for ECBs up to December 31, 2009;
- vi. Investment limit by FII in G-sec and Treasury Bills was increased from US\$3.6 billion to US\$5 billion.
- vii. Units in the Special Economic Zone (SEZ) are permitted to access ECBs for their own requirements. However, On review, it has been decided to allow SEZ developers to avail of ECB, under the Approval route, for providing infrastructure facilities, as defined in the extant ECB policy, within the SEZ. However, ECB will not be permissible for development of integrated township and commercial real estate within the SEZ.
- viii. The corporate under investigation by the Reserve Bank and / or Directorate of Enforcement for violation of FEMA, will not be allowed to access the Automatic

route for ECB. Any request by such corporates for ECB will be examined under the Approval route.

Agenda For Reforms

- ✓ Two important Government Committees High Powered Expert Committee on Making Mumbai an International Financial Centre (HPEC on MIFC) and High Level Committee on Financial Sector Reforms (CFSR) have submitted their reports recently. The two reports have common underlying terms of reference, viz. to recommend next generation of financial sector reforms for India. The mandate of HPEC on MIFC was to look ahead and prepare for the emergent role of Mumbai as a regional/international financial centre by reviewing the existing legal, regulatory, taxation and accounting framework related to financial services in India and recommend an enabling framework to facilitate such transformation of Mumbai. The CFSR has, touched upon the following reasons for financial sector reforms: (i) to include more Indians in the growth process; (ii) to foster growth itself and (iii) to improve financial stability and thus protect the economy from any kind of turbulence that has affected emerging markets in the past and is affecting industrial countries today.
- ✓ The report of the HPEC for developing Mumbai as an International Financial Centre (IFC) was submitted on 10th February 2007. The report was circulated among all major Central Ministries /Departments, Chief Secretaries of State Governments, the regulators viz. RBI, PFRDA, SEBI, IRDA, and certain other non-government agencies/organizations. The report was also posted on the Ministry's website seeking public comments through a dedicated e-mail-id. The feedback received on the report was processed by the government.
- ✓ In the meeting taken by the Hon'ble Prime Minister on 24th August, 2007, the following recommendations of the MIFC Report have been identified for priority implementation:
 - i. All the necessary steps recommended by HPEC for a vibrant B-C-D (Bond-Currency-Derivatives) complex needs to be implemented expeditiously.
 - ii. Steps to be taken for making the Securities Appellate Tribunal a Financial Services Appellate Tribunal.
 - iii. The educational efforts for strengthening regulatory/appellate/judicial capacity in the area of securities market need to be taken up forthwith.
 - iv. The HR initiatives suggested by the HPEC would need speedy implementation.
 - v. The recommendations in the HPEC on the reforms in the G-Secs market and the establishment of DMO to be completed in a quick time frame.
 - vi. Regulatory impact assessment to be mandated for financial sector regulators.
- ✓ The steps taken in the direction of implementing the recommendations of the report inter alia include the launch of exchange traded currency futures on the NSE on 29th August, 2008, BSE on 1st October, 2008 and MCX on 7th October, 2008, setting up of an internal working group on debt management and establishing a National Treasury Management Agency, processing the report of the said internal working group, continuous interaction with various regulators and Ministries/Departments of the government in taking forward the HR and other initiatives as well as steps required to carry out proposed changes in India's regulatory and financial architecture.

Foreign Institutional Investment

- ✓ The Government and SEBI, after extensive consultation, decided on 16th October, 2007 in consultation with the RBI and government to place certain restrictions on the issue of Participatory Notes (PNs) by FIIs and their sub-accounts. This decision was taken with a view to moderate the surge in foreign capital inflows into the country and to address the know-your-client concerns for the PN holders. The changes introduced were:

In addition, the Board had also approved the following proposals :

- i. The “broad-based” criteria shall be modified to include entities having at least 20 investors, no single investor holding more than 49% (instead of 10% at present).
 - ii. Track record of individual fund managers will be considered for the purpose of ascertaining the track record of a newly set up fund, subject to such fund manager providing its disciplinary track record details.
 - iii. Issuance of ODIs/PNs would be limited to only “regulated” entities and not “registered” entities.
 - iv. FII and sub-account registrations will be perpetual, subject to payment of fees.
- ✓ History tells us that markets that lose liquidity find it extremely difficult to get it back. Even within India, the NSE-BSE example demonstrates this. BSE has not been able to get liquidity back from NSE once BSE allowed it to be lost. On account of unreasonable restrictions in Japan, Nikkei futures gained liquidity in Singapore years ago. Japan has tried everything for at least a decade with no success. So measures which do not recognize that
 - a. In today's world there is no effective way of banning negative or positive views from markets for countries like India, and
 - b. Any attempt to ban such views from our markets will only shift liquidity to other markets can result in colossal policy failure.
 - ✓ Therefore, SEBI proposed to its Board (October 2008) to review its earlier decision to phase out PNs (ODIs) on derivatives and to deliberate upon the quantitative restrictions in the light of the above factors. The Board reviewed the position and took the following decision:

“The Board felt that the framework governing the participation of foreign institutional investors in Indian securities markets needs a comprehensive review. Accordingly, it decided to put out a detailed consultative paper on this for comments from the public. However, it undertook a limited review of the FII regime in respect of overseas derivative instruments, popularly known as PNs. This review was due in terms of the decision that was taken along with the decision taken in October 2007. It decided to do away with restrictions on issue of PNs by FIIs against securities, including derivatives, as underlying.”

External Assistance

India borrows from different multilateral and bilateral donor agencies and governments, within the overall external debt management policy pursued by the Government which focuses on raising funds on concessional terms from less expensive sources with longer maturities. Government of India (GoI) has ensured that the country assistance strategies of all external partners is fully aligned with the development priorities of India, as laid down in the Five Year Plans, and in our various programs. For example, the bulk of the loan assistance, especially of multilaterals such as the World Bank (WB) and Asian Development Bank (ADB), and other bilateral donors focus on infrastructure development [transport (national highways, rural roads, state roads), energy (capacity addition, T&D, energy efficiency, reforms), urban water supply and sanitation, agriculture, irrigation, urban transport (including metro)] and social sector [health, education etc] with emphasis on the relatively poorer and weak capacity states.

India accesses assistance from for two multilateral agencies, of which it is a member- the World Bank (WB) Group and the Asian Development Bank (ADB). Apart from these, assistance is also taken from bilateral donors and governments such as Japan, UK, Germany, France, European Commission, USA and the Russian federation.

According to the Paris Declaration of Aid Effectiveness 2005, multilateral organisations attempt to keep the terms of aid harmonized and aligned with various lending products offered by them. Assistance from external agencies is either through the concessional lending window or through the regular market based lending window. Besides, grant assistance is also given by some agencies and organisations such as, the UK (Department for International Development), United Nations etc. The concessional window consists of the World Bank group through the International Development Association (IDA), USA, International Fund for Agriculture and Development (IFAD), European Commission, Japan and Russia. IDA funds are one of the most concessional external loans for India and are used largely in the social sector projects that contribute to the achievement of Millennium Development Goals. On the ADB side, India started borrowing from the ordinary capital resources (OCR) in 1986. Although India is eligible to draw partly from the Asian Development Fund (ADF), which provides concessional funding, India has consciously opted out of this facility to allow the Least Developed Countries (LDCs) to avail of this facility.

For both WB (International Bank for Reconstruction and Development) and ADB, the regular terms of lending is based on 6 month's LIBOR plus a variable spread (17 bps for IBRD and 20 bps for ADB). The usual ADB repayment period of loan is 25 years (including 5 years grace period) whereas for IBRD loans it is 30 years (including 5 years grace period).

The total commitment of the WB (IBRD and IDA) for 68 on-going projects is around \$ 19.5 Billion with total disbursement as on September 30, 2009 is \$ 6.5 Billion. ADB has committed \$ 9.3 Billion for 52 on-going projects. Japan has committed about \$11.65 billion

for 55 ongoing projects. WB loans focus both on the infrastructure as well as the social sector. As on June, 30, 2009 the distribution of WB loans over the major sectors was as following: Transport (23%), Agriculture (20%), Energy (13%), Health (12%) and Finance and Economic Management (12%). ADB loans focus primarily on infrastructure projects. As on September, 30, 2009, the major sectoral distribution of ADB loans was as following: Transport (41%), Urban Development (24%), Energy (19%), Finance and governance (11%).

Loans from the WB and ADB have been accessed for projects in all regions of the country. Earlier, loans were concentrated on projects in States such as Andhra Pradesh, Madhya Pradesh, Kerala, Rajasthan, Karnataka, Assam and Gujarat. In keeping with the general policy of the Government to promote balanced and inclusive growth across the country, loans are now being extended for projects in Uttarakhand, Jammu & Kashmir, Jharkhand, Bihar, Chattisgarh and the North Eastern States apart from central sector projects such as the Sarwa Siksha Abhiyan, National Highway Development Programme, Pradhan Mantri Gram Sadak Yojana (part of the Bharat Nirman program).

Through ongoing dialogue, GoI also ensures that the external donor partners respond to our evolving needs. For example, both WB and ADB have been assisting Government of India for mainstreaming PPP's. On the ADB side, these include, (a) setting up a PPP nodal division at the Ministry of Finance, (b) developing project development funding schemes (India Infrastructure Project Development Fund), (c) creating viability gap funding schemes, and (d) developing a panel of PPP transaction advisors. ADB support for the Government's PPP initiative has seen a tremendous response with many other states requesting assistance in PPP mainstreaming, as well as a strong pipeline PPP project concepts for development. The structuring of these concepts to facilitate successful bid and financial closures is the new challenge which now needs to be addressed.

GoI has also impressed upon the external partners, the need to improve the design and implementation of their loans. For example, DEA has been working closely with ADB and WB to conduct regular tripartite portfolio review meetings (TPRMs). These meetings are attended by staff from DEA, ADB, and EAs all ADB projects across all states. They have helped in increasing focus on project readiness and improving portfolio performance. Equally important, such meetings help in facilitating cross-sectoral and cross-state learning. Apart from this State level reviews are also held by DEA and the concerned donor agencies.

While external assistance does not play a significant part in Indian economy in terms of financing of plan outlays, Gross Capital Formation etc, the international good practices attached to such assistance are more beneficial from India's viewpoint. Multilateral agencies provide strong value addition to their lending by sharing their experience/knowledge from development projects in various countries.

G-20 Issues

The deliberations in the G 20 Finance Ministers meeting focussed on the current global economic situation -- particularly on exit strategies from the extraordinary fiscal and monetary measures taken by G 20 countries to counter the global financial crisis; future growth prospects for sustainable growth; resources for and reforms of International Financial Institutions; support to Low Income countries and financing for climate change.

India would like to see the emergence of a strong political commitment to the Quota/voice and representation reforms in International Financial Institutions in favour of the emerging and developing countries. We would also like to see the capital base of multilateral development banks enhanced so that they are able to sustain enhanced levels of lending. We are also willing to shoulder some of the responsibility for augmenting the resources of the IMF. We expect further progress on having financial stability as an important mandate of the IMF. We will assess what further steps are required to evolve uniform international standards for financial regulation and to make non cooperative jurisdictions conform to these standards to prevent regulatory arbitrage.

Department of Financial Services

I. INSURANCE SECTOR

Introduction:

1. The insurance sector was opened for private participation with the enactment of the Insurance Regulatory and Development Authority Act, 1999. Since opening up, the number of participants in the industry has gone up from six insurers (including Life Insurance Corporation of India, four public sector general insurers and General Insurance Corporation as the National Re-insurer) in the year 2000 to 44 insurers as on March 2009 operating in the life, non-life and re-insurance segments (including specialized insurers, viz. Export Credit Guarantee Corporation and Agriculture Insurance Company of India Limited (AICIL). Two of the general insurance companies viz. Star Health and Alliance Insurance Company and Apollo DKV Health Insurance Company function as standalone health insurance companies. Of the twenty one life insurance companies which have set up operations in the life segment post opening up of the sector, nineteen are in joint venture with foreign partners. Of the fifteen who have commenced operations in the non-life segment, fourteen had been set up in collaboration with the foreign partners. Thus, thirty three insurance companies in the private sector are operating in the country in collaboration with established foreign insurance companies from across the globe as on 31st March, 2009.

INDUSTRY PERFORMANCE OUTLOOK

2.1 Life insurance industry

From being the sole provider for life insurance till the financial year 1999-2000, LIC is today competing in the industry with private sector insurers who have commenced operations over the period 2000-08. The life insurance industry (first year premium) has shown a growth of 37% between 1996-97 to 2000-2001 and 46.63% between 2001-02 to 2007-2008.

The first year premium, which is a measure of new business secured, underwritten by the life insurers during 2008-09 was Rs.87,108 crore as compared to Rs.9,707 crore in 2000-01.

The life insurance industry underwrote 5.09 crore policies in 2008-09 reporting a growth of 0.10 %. The share of ULIP business in the first year premium in 2008-09 was 37.30 per cent while the non-linked premium was 62.70 %.

A notable feature of the opening of the life insurance market has been that the size of the life insurance pie itself is expanding. Insurance penetration which was 1.41% of GDP in 1995, has grown to 4.00% of GDP in 2008. Insurance density is 41.20 (Premium per capita in USD).

The outlook for Life Insurance in 2009 is showing positive signs of recovery. IRDA figures up to August 2009 indicates the growth of First year premium for the Insurance industry as 17.35% as compared to -6.32% at the end of last fiscal. LIC has also achieved a growth rate of 44.92% in First year premium as against -10.52% as at 31/03/2009.

2.2. Non-life insurance industry:

The non-life insurers (excluding specialized institutions like ECGC and AIC and the standalone health insurance companies) underwrote premium within India of Rs.27823.74 crore in 2007-08, as against Rs.9806.95 crore in 2000-01. Two of the fastest growing segments are Motor and Health accounting for 45.59 and 17.59 per cent of the premium underwritten in India in 2007-08. The premium underwritten in these two segments in 2007-08 was Rs.12685.25 crore and Rs.4894.42 crore respectively, reporting growth of 18.58 and 47.45 per cent over 2006-07. The no. of policies underwritten in 2007-08 was 57250259 as against 46664145 in 2006-07. During the current year, the non-life insurers underwrote premium of Rs.22897.22 crore during April -December 2008 as against Rs.20770.64 crore in the corresponding period of previous year exhibiting a growth of 10.24%. The growth in premium underwritten was 12.08% in the corresponding period of 2007. During the period April-December 2008, the no. of policies underwritten was 46235983 as against 41954969 in the corresponding period of 2007. Post de-tariffing, while the growth in premium has slowed down on account of reduction in rates, the number of policies underwritten has exhibited an increase.

3. INSURANCE SCHEMES FOR THE WEAKER SECTION

(i) **Universal Health Insurance Scheme (UHIS):** The scheme, launched in July, 2003, is subsidized by the Central Government and is being operated through four Public Sector General Insurance Companies. It was redesigned in July 2004, restricting it to Below Poverty Line (BPL) families only. The Scheme is available for Individuals as well as Group belonging to BPL families upto a limit of Rs.30,000 Sum Insured on floater basis. Personal Accident benefit to the earning Head of the family for Rs.25,000, in addition , loss of earnings to the earning head of the family / spouse at the rate of Rs.50 per day for a maximum of 15 days for the period of hospitalization. The maximum age limit is 70 years. Pre-existing diseases are covered. The policy has been extended to cover Maternity Benefit of Rs. 2,500/- for normal delivery and Rs.5,000 for caesarean delivery for one Child only with 12 months waiting period.

The premium charged under the policy is Rs.300/- for an individual, Rs.450/- for a family of five and Rs.600 for a family of 7 members with a subsidy of Rs.200, Rs.300, and Rs.400 respectively.

Year-wise performance details as furnished by the public sector general insurance companies are as under:-

Year	No. of Policies	Number of Families	<i>Number of Persons</i>
2007-08	1,14,095	1,97,133	6,64,598
2008-09	2,61,606	2,82,258	11,01,004

(ii) Janashree Bima Yojana (JBY):

The scheme provides life insurance protection to the rural and urban persons living below poverty line and marginally above poverty line. Persons between age 18 years and 59 years and who are the members of the identified 45 occupational groups are eligible to be covered under this policy. The scheme provides coverage of Rs.30,000/- on natural death, Rs.75,000/- on death or total permanent disability due to accident and Rs.37,500/- on partial permanent disability. The premium under the scheme is Rs.200/- per annum, 50% of which is contributed by the member or State Government or nodal agency and remaining 50% is drawn as subsidy from the Social Security Fund constituted by Government of India and maintained by LIC of India.

(iii) Shiksha Sahayog Yojana w.e.f. 31/12/2001, as an add-on benefit to Janashree Bima Yojana.

Scholarship as a free add-on benefit is also provided to a maximum of two children of the beneficiary studying between 9th to 12th Standard @ Rs.100/= per month for each child payable half yearly – on 1st July and on 1st January, each year.

COVERAGE AND CLAIMS SETTLED DURING LAST FIVE YEARS (JBY)

(Rs. in crores)

	LIVES			CLAIMS	
2006-07	57,16,706	19,34,530	76,51,236	26,116	62.88
2007-08	70,89,908	50,45,266	1.21.35.174	43,203	125.94

In 2008-09, a total of 1,62,60,662 lives were covered under the scheme.

SCHOLARSHIPS DISBURSED DURING LAST SIX YEARS

Year	Number of scholarships	Amount of Scholarships (Rs.)
2006-2007	7,41,432	43,76,10,400
2007-2008	13,01,136	76,29,88,382

In the year 2008-09 a total of 13,08,858 scholarships were provided entailing an expenditure of Rs. 97,21,43,040.

(iii) Aam Admi Bima Yojana (AABY): This scheme provides insurance cover to the head of the family or one earning member in the family of rural landless household (RLH).

The scheme provides coverage of Rs.30,000/- on natural death, Rs.75,000/- on death/ disability due to accident and Rs.37,500/- for loss of one eye or limb in an accident. Scholarship as a free add-on benefit is also provided to a maximum of two children of the beneficiary studying between 9th to 12th Standard @ Rs.100/= per month for each child payable half yearly – on 1st July and on 1st January, each year.

The premium is charged under the scheme is Rs.200/- per annum, of which 50% is subsidized from the Fund created by Central Government for this purpose and the remaining 50% is contributed by the State Government. Hence it is free for the identified beneficiaries.

A total of 81,99,150 rural landless households heads have been provided insurance cover under the Scheme as on 30.09.2009.

4. FDI in Insurance Sector

At present, the foreign equity up to 26% is allowed in insurance sector. The FDI has been put in the automatic route. The Finance Minister in the Budget Speech of financial year (2004-05) has announced hiking of Foreign Direct Investment (FDI) limit in Indian insurance companies. Accordingly, Government has introduced the Insurance Laws (Amendment) Bill, 2008 in the Rajya Sabha on 22.12.2008. The Bill inter-alia, provides for enhancement of holdings of equity shares by the foreign company, either by itself or through its subsidiary companies or its nominees in Indian Insurance Companies from twenty six per cent to forty nine per cent except in case of insurance co-operative societies where the limit continues to be 26% as at present.

II. India Infrastructure Finance Company Ltd

India Infrastructure Finance Company Ltd. was incorporated on 5th January, 2006 as a wholly owned Company of the Government of India (GoI), to facilitate access to long term resources for infrastructure development. The Company became operational in April, 2006. The Company has been mandated under Scheme for Financing Viable Infrastructure Projects (SIFTI) to give loans for infrastructure projects for a period exceeding 10 years. It is financing eligible infrastructure projects in sectors like roads, ports, power, urban infrastructure etc. to facilitate financial closure of infrastructure projects. Public private partnership projects are being given overriding priority. IIFCL can raise resources in domestic and overseas markets against Government guarantee.

The Authorized Capital of the Company, which was Rs. 1,000 crore initially, was enhanced to Rs. 2,000 crore in August 2008. The paid up capital of IIFCL at present, is Rs. 1,800 crore.

Operational Performance

Since inception and upto September 2009, IIFCL has sanctioned, an aggregate loan commitment of Rs. 19,376 crore to 117 projects involving a total project cost of Rs. 154,887 crore. Of these, 111 projects have achieved financial closure. The disbursements have been made in 91 cases to the tune of Rs. 6,500 crore. These projects are in sectors like Roads, Ports, Airport, Power and Urban Infrastructure. The Company has planned to increase the disbursements of Rs. 10,500 crore excluding refinance of Rs. 10,000 crore by March 2010.

Sector-wise details of proposals sanctioned as on 30.09.2009 is as under:

(Rs crore)

Sector	No. of Projects	Project Cost	Loan Sanctioned
Road	60	40,547	6,875
Port	6	4,984	820
Power	22	91046	9429
Airport	2	14,716	2,150
Urban Infrastructure incl. PMDO	27	3594	102
Total	117	1,54,887	19,376

As mandated under the first stimulus package, IIFCL had raised tax free bonds of Rs. 10,000 crore by March 31, 2009. The proceeds of these bonds will be used to provide refinance to the banks upto 60% of the debt for eligible infrastructure projects of about Rs.25,000 crore. To fund additional projects of about Rs.75,000 crore at competitive rates

over the next 18 months, IIFCL will be enabled to access in tranches an additional Rs.30,000 crores by way of tax free bonds once funds raised in the current year are effectively utilized. In particular, these initiatives will support a PPP programme of Rs.100,000 crore in infrastructure.

Resource Mobilisation

To meet the expanding business, the company has been mobilizing resources from the domestic market by way of issuance of long term bonds. Asian Development Bank (ADB) has sanctioned a loan of USD 500 million and the company has availed USD 275 million out of the same. ADB is considering additional line of credit of USD 700 million. World Bank has sanctioned a line of credit of USD 1195 million, which is perhaps the highest ever sanctioned by the World Bank to a financial intermediary in India. Kreditanstalt fur Wiederaufbau (KfW) has given an “in principle” sanction for a loan of Euro 180 million to the company.

IIFC (UK) Ltd

Following the announcement of the Hon’ble Finance Minister in the Union Budget 2007-08, IIFC (UK) Ltd, has been set up at London on February 7, 2008 as a wholly-owned subsidiary of India Infrastructure Finance Company. The main objective of the company is to borrow funds from the RBI to provide financial support to Indian companies implementing infrastructure projects in India for the purpose of meeting their capital expenditure out-side India and for import of capital equipment and machineries and to co-finance the external commercial borrowings for such infrastructure projects. RBI has agreed to provide a term loan of US\$ 5 billion to IIFCL (UK) Ltd. out of the forex reserves against GoI guarantee. The documents for raising 1st tranche of USD 250 million have been executed. The company has so far sanctioned USD 1371 million in 9 proposals in power and metro projects with a project cost of over USD 14 billion.

Other Initiatives

- In the Budget Speech of 2009-10 the Hon’ble Finance Minister has announced that IIFCL would, in consultation with banks, evolve a ‘take out financing’ scheme which could facilitate incremental lending to the infrastructure sector. IIFCL is in the process of framing a Take-out Financing Scheme.
- It is also exploring the possibility of providing credit enhancement through Credit Guarantee and/or Credit Wrap Insurance.
- The company has evolved a risk management framework for risk identification, measurement and management.
- The company on its own has adopted prudential accounting norms relating to asset classification, income recognition and provisioning as prescribed by RBI for commercial banks. Accordingly, the company has been making provisions for standard assets @

0.40%. Besides, the company has created infrastructure reserves and also capital reserve to improve its fundamental strength.

- Towards streamlining and improving internal processes, the company has evolved an Operations Manual and is developing and implementing an IT Plan for various business and support functions.
- The company has also evolved an Environmental and Social Safeguards Framework (ESSF) with the help of Asian Development Bank to minimize environment and social impacts due to the implementation of infrastructure projects, and to ensure that the projects comply with the government laws, regulations and environmental safeguards of development partners.

III. **REGIONAL RURAL BANKS**

1. Amalgamation of Regional Rural Banks (RRBs)

On the basis of the recommendations of the Working Group set up to suggest measures to strengthen and improve the viability of Regional Rural Banks (RRBs), the Government initiated a process for structural consolidation of RRBs by amalgamating RRBs sponsored by the same bank within a State. The amalgamated RRBs will provide better customer service due to better infrastructure, computerization of branches, pooling of experienced work force, common publicity and marketing efforts etc. As a result thereof, the number of RRBs have reduced from 196 to 84 including one new RRB namely Puduvai Bharthiar Grama Bank was established on 26.3.2008 in the Union Territory of Puducherry.

2. Recapitalization of RRBs

In terms of the Budget announcements for the year 2007-08, 27 RRBs were identified for recapitalization for an amount of Rs.1795.97 crore. The amount was to be shared by the Central Government, sponsor bank and the State Governments in the ratio of 50:35:15. As on date all the 27 RRBs have been fully recapitalized.

3. Branch Expansion Programme of RRBs to uncovered districts

RRBs have been advised to open 2000 new branches in the next two years i.e. by March 2011.

4. Core Banking Solutions (CBS) in RRBs

All RRBs have been advised to migrate to CBS by September 2011. Sponsor Banks shall provide all necessary support required to rollover the RRBs to CBS. The technology and hardware selected should cater to the future needs of the RRBs.

5. Capital-To-Risk-Weighted Assets Ratio (CRAR)

In a Meeting held on 18.8.2009 with the Chairmen of RRBs and General Managers of sponsor banks, the Finance Minister decided to constitute a Committee to examine the financials of RRBs with CRAR of less than 7% as on March 31, 2009 and suggest measures to bring the CRAR of RRBs to at-least 7% in a time bound manner. Accordingly, a Committee under the Chairmanship of Dr. K.C. Chakrabarty, Deputy Governor, RBI has been set up on 17.9.2009.

6. Scheduling of Amalgamated RRBs

Out of the 46 RRBs that were formed after amalgamation, 32 have been re-scheduled. For the remaining 14 RRBs where scheduling is pending, NABARD will send all its duly completed inspection reports to RBI which shall thereafter take up this matter on priority.

IV. MSME Credit

Micro, Small & Medium Enterprises Sector contributes about 40% of total manufacturing and 34% of total exports and is crucial to India's economic growth, employment generation and entrepreneurial development. Under the "Policy Package on stepping up credit to SME sector" announced in the Parliament on August 10, 2005 a minimum 20% year on year growth in credit in Micro, Small and Medium Enterprises (MSMEs) was sought to be achieved by 2009-10.

Credit flow to MSME sector extended by the Public Sector Banks over the past three years has been as follows:

(Rs. in crore)

As at the end of	Credit flow to MSME Sector	Growth over previous year (%)
March, 2007	184589	25.81
March, 2008	247982	34.34
March, 2009	312287	25.93

As on March 31, 2009, SIDBI had advanced Rs.6269 crore to MSME Sector – Rs.4336 crore to the PSBs by way of refinance, Rs.420 crore to the State Financial Corporations and Rs.1513 crore for SIDBI's direct lending to MSME sector.

A statement showing details of bank-wise credit flow to MSME Sector is **Annexed**.

**Progress Report on SME Credit
For Quarter Ending Mar, 2009
Outstanding Credit to SME**

S.No.	Name of the Bank	<u>As reported by</u> <u>RBI</u>		<u>As reported</u> <u>by</u> <u>banks</u>			<u>Growth (%)</u>
		<u>As on</u> <u>Mar. 31,</u> <u>06</u>	<u>As on</u> <u>Mar. 31,</u> <u>07</u>	<u>As on</u> <u>Mar. 31,</u> <u>08</u>	<u>As on</u> <u>31-Dec-</u> <u>08</u>	<u>As on</u> <u>31-Mar-</u> <u>09</u>	<u>April 06-</u> <u>Mar., 07</u>
1	Allahabad Bank	2765	3400	4610	5058	5508	22.97
2	Andhra Bank	2439	3212	3989	4971	5357	31.69
3	Bank of Baroda	6854	9006	11808	13710	14662	31.40
4	Bank of India	13323	16211	20400	23898	25443	21.68
5	Bank of Maharashtra	1533	2047	2643	2915	3074	33.53
6	Canara Bank	11619	14245	18600	21440	23823	22.60
7	Central Bank of India	5409	6514	6063	6009	6644	20.43
8	Corporation Bank	2469	3210	4025	4658	5205	30.01
9	Dena Bank	2388	3141	3885	4095	4775	31.53
10	Indian Bank	4364	5350	4355	5291	5471	22.59
11	Indian Overseas Bank	4677	5778	7541	8186	9395	23.54
12	Oriental Bank of Commerce	4178	5047	6228	6706	6941	20.80
13	Punjab National Bank	11689	14511	18198	20466	23700	24.14
14	Punjab & Sind Bank	1571	1881	3054	3732	4736	19.73
15	Syndicate Bank	3053	4205	5420	6327	6895	37.73
16	UCO Bank	2868	4498	7955	7601	8963	56.83
17	Union Bank of India	6697	8818	12242	14612	16149	31.67
18	United Bank of India	1709	2091	2881	3205	3705	22.35
19	Vijaya Bank	1441	1889	3468	4427	4552	31.09
20	State Bank of India	42267	52269	74324	85521	93808	23.66
21	State Bank of Bik. & Jaipur	2398	3039	3513	3895	4015	26.73
22	State Bank of Hyderabad	1968	2647	5042	5800	6288	34.50
23	State Bank of Indore	1401	1633	3589	5020	5922	16.56
24	State Bank of Mysore	1037	1317	2261	2498	2620	27.00
25	State Bank of Patiala	1746	2210	3160	5880	6667	26.58
26	State Bank of Saurashtra*	1489	1835	2077	0	0	23.24
27	State Bank of Travancore	2427	3434	4338	4968	5373	41.49
28	IDBI	939	1151	2313	3206	2596	22.58
	Total	146718	184589	247982	284095	312287	25.81

* Merged with State Bank
of

India since 13.08.2008

Credit Guarantee Scheme for Micro and Small Enterprises

The Ministry of Micro, Small and Medium Enterprises, Govt. of India, (the then Ministry of SSI) and Small Industries Development Bank of India (SIDBI), established the “Credit Guarantee Fund Trust for Micro and Small Enterprises (CGTMSE) to implement the Credit Guarantee Scheme for Micro and Small Enterprises”. The scheme was formally launched, on August 30, 2000. The Settlers have contributed Rs. 1736.67 crore to the corpus of the Trust (as on December 31, 2008). Numerous initiatives have been taken by the Government to enhance the coverage of credit guarantee to incentivise lending to the MSE Sector. One time guarantee fee was reduced from 2.5% to 1.5%. Further, as announced in the Budget 2008-09 one time guarantee fee was further reduced from 1.5% to 1% and annual service fee from 0.75% to 0.50% in respect of credit facility up to Rs.5 lakh sanctioned by Banks/ Member Lending Institutions (MLIs) to the Micro and Small Enterprises.

On December 7, 2008 in the package containing measures for stimulating the economy, with a view to boost collateral free lending, the current guarantee cover under Credit Guarantee Scheme for Micro and Small Enterprises on loans was extended from Rs.50 lakh to Rs.1 crore with guarantee cover of 50 %. Besides this, the lock in period for loans covered under the existing credit guarantee scheme was reduced from 24 to 18 months, to encourage banks to cover more loans under the guarantee scheme. In the subsequent package announced on January 2, 2009, it was further decided to increase the guarantee cover extended by CGTMSE to 85% for credit facility upto Rs.5 lakh in order to enhance flow of credit to micro enterprises which would benefit about 84 per cent of the total number of accounts accorded guarantee cover.

As on 31.08.2009, a total number of 1,90,650 loan proposals through Banks/MLIs were approved by CGTMSE for Rs.6652.88 crore

V. Housing Sector

1. Rural Housing Fund

RHF was announced in the Union Budget 2008-09 to enhance rural housing finance in the country through the National Housing Bank, by tapping the resources of scheduled commercial banks to the extent of shortfall in their priority sector lending. Initially, an amount of Rs.1000 crore was allocated by the RBI to this Fund which was subsequently enhanced by an additional allocation of Rs.1000 crore.

Further, the Union Budget presented by the Hon'ble Finance Minister for the current year i.e. 2009-10 has provided fresh funds to the tune of Rs.2000 crore under RHF. At present the refinance under the Fund is being provided at the rates given below:

S. No.	Slabs	Present interest rates
1	Loans upto Rs.2 lakh	7% p.a.
2	Rs. 2 lakh to Rs.5 lakh	7.5% p.a.
3	Above Rs. 5 lakh to Rs. 15 lakh	8% p.a.

Also, refinance is now being extended at fixed rates of interest throughout the tenure of the refinance assistance without the option for re-pricing. Further, to provide a suitable incentive structure to facilitate flow of housing credit to rural areas having a population upto 5,000 a special concession of 25 bps on the above refinance rates.

The funds under RHF are to be utilized for extending financial assistance to the "weaker sections" as defined in the priority sector guidelines of RBI. NHB would utilize this fund under various refinance schemes to the rural housing sector, including rural housing microfinance. The various agencies eligible to avail refinance under RHF are Regional Rural Banks (RRBs), Housing Finance Companies (HFCs), Cooperative Banks, Agriculture and Rural Development Banks, Apex Cooperative Housing Finance Societies and other intermediaries as may be approved by NHB. In order to encourage PLIs towards rural lending, refinance assistance under RHF is also being extended on a prospective basis, to be progressively utilized within three months from the date of disbursement, as per the extant refinance policy. In order to ensure the distinctive character of the Fund, as also to monitor the end use of funds, the amount received under RHF is being treated and accounted for

separately. The utilization certificate is being submitted by PLIs for their lending towards eligible borrowers under RHF.

Out of the Rs.2000 crore allocated under RHF for the financial year 2008-09, NHB received a sum of Rs.1760.33 crore from various banks. An amount of Rs.1761.48 crore was disbursed under RHF (which was more than the amount received by NHB under the Scheme; amount of Rs.239.67 crore yet to be received by NHB from some banks). While aggregate sanctions of Rs.530 crore were made to RRBs, Rs.201.60 crore has already been disbursed to the eligible RRBs. Further, Rs.15 crore was disbursed to UCBs, while the remaining amount i.e. Rs.1544.88 crore was disbursed under RHF to eligible HFCs. Approximately, 20% of total loan disbursed under RHF has been used for on - lending to individuals upto Rs.5 lakh per borrower.

The Government of India, Ministry of Finance and Reserve Bank of India have accepted the proposal from NHB to include population in the rural areas with annual income not exceeding Rs. 2 lakh in the eligible category of borrowers. This would enable eligible persons to access loans upto about Rs. 4–5 lakhs with reasonable debt servicing capacity. Thus, the definition of weaker sections may be extended to cover the above (in addition to the existing categories of weaker sections) which would expand the access of the rural population to institutional credit. It is expected that with the support of the RHF, the rural housing market will get better served.

Of the allocated amount of Rs.2000 crore for the current financial year (2009-10), NHB has so far received Rs.441.64 crore. As against this, NHB has till date disbursed Rs.46 crore under the RHF Scheme.

2. Reverse Mortgage Loan Scheme

Background:

In the Union Budget Speech for 2007-08 (Para 89), FM has announced “the National Housing Bank (NHB) will shortly introduce a novel product for senior citizens: a 'reverse mortgage' under which a senior citizen who is the owner of a house can avail of a monthly stream of income against the mortgage of his/her house, while remaining the owner and occupying the house throughout his/her lifetime, without repayment or servicing of the loan.”

Pursuant to the announcement, NHB conceptualized and formulated the Reverse Mortgage Loan Operational Guidelines for Primary Lending Institutions (PLIs).

Status Update:

- In the Union Budget 2008-09, the Income-tax Act, 1961 was amended. The amendments were (i) A new subsection (xvi) to Section 47 of the Income Tax Act providing that

reverse mortgage would not amount to “transfer” and (ii) insertion of a new subsection (43) under Section 10 of the Income Tax Act to the effect that the stream of payments received by the senior citizen under RML scheme made & notified by the Central Government would not be treated as “income”. Consequent to these amendments, a borrower, under this scheme, will be liable to income tax (in nature of tax on Capital Gains) only at the point of alienation of the mortgaged property by the mortgagee for the purposes of recovering the loan.

- The Reverse Mortgage Scheme has also been notified by the Government of India vide the notification number S. O. 2310 (E), 30th September, 2008.
- As per information available, 23 Banks and 2 HFCs have launched RML
- Over 5287 RMLs aggregating to about Rs.1021.38 crore sanctioned (*as on June 30, 2009*)
- State Bank of India (Rs.880 crore) and Punjab National Bank (Rs.64 crore) being the major lenders
- NHB has been widely disseminating information on RML. Seminars/workshops/interactions have been held at different centres such as Delhi, Mumbai, Hyderabad, Chandigarh, Faridabad, Kolkata, Pune.
- NHB’s Reverse Mortgage Loan Counselling Programme introduced on a ‘pilot’ basis, in association with reputed NGOs. Six Counselling Centres have been established at New Delhi, Hyderabad, Chandigarh, Kolkata and Bengaluru including one at Head Office of NHB in New Delhi
- Two Toll free Helplines, at NHB (**1-800-115-432**) and a Call Centre of Harmony Foundation for Silvers at Mumbai (**1-800-100-1111**) also made available whereby Senior Citizens from anywhere in India may seek information on RML Toll free numbers
- A separate section on RML is made available on NHB’s website
- NHB working on making available an insurance product to extend the monthly annuities beyond the maximum 20 year period of RML. Interactions with Life Insurance Corporation of India and various Insurance Companies were held in this regard. Discussions are being held to finalize the product.

3. India Mortgage Guarantee Company

- The proposal relating to the establishment of the India Mortgage Guarantee Company (IMGC) as a joint venture between National Housing Bank (NHB), International Finance Corporation (IFC) and the Asian Development Bank (ADB) and United Guaranty Corporation, a subsidiary of American International Group, Inc. (AIG) was accorded approval by the Foreign Investment Promotion Board (FIPB) at their meeting held on September 12, 2008.
- However, in subsequent developments, AIG - UGC were constrained to withdraw from the proposed Joint Venture. Pursuant to their withdrawal from the Project, as an alternative measure, the remaining Partners viz. NHB, IFC and ADB have been in

discussions for exploring potential investors towards filling up the gap in the equity stake (to the extent of 41%) of the proposed Mortgage Guarantee Company created pursuant to the above withdrawal.

- In this connection, the institutions that have evinced interest in participating in the above initiative include M/s Genworth Financial International Holdings Inc., a USA based insurance company with operations in several countries and Nederlandse Financierings - Maatschappij voor Ontwikkelingslanden N.V. (FMO), a bilateral finance institution organized and incorporated under the laws of the Netherlands.
- The possibility of involvement of M/s Genworth in the capacity of a Technical Partner with equity participation (on the lines of AIG-UGC) in the Project is being explored.
- As a Technical Partner, M/s Genworth would be responsible for running the company and its day to day management (role to be earlier performed by the AIG-UGC).
- The above potential Partners of IMGC are in the process of discussing the proposal in detail towards finalizing the shareholding structure and the revised Term Sheet.

4. Scheme of 1% Interest Subvention on Housing Loan up to Rs. 10 lakhs

- The Finance Minister had announced a Scheme of 1% Interest Subvention on Housing Loan up to Rs. 10 lakhs. An allocation of Rs. 1,000 Crores was also announced for the purpose.
- Pursuant to the above mentioned announcement, the Government of India has approved a Scheme of Interest Subvention on Housing Loan up to Rs. 10 lakhs, provided the cost of the unit does not exceed Rs. 20 lakhs. The objective of the Scheme is to provide interest subsidy on housing loan as measures to improve affordability of housing to eligible borrowers.
- The Scheme will be implemented throughout the country and will be in operation for a period of 1 year starting from 1st October, 2009 to 30th September, 2010.
- Interest subsidy of 1%, by way of reduction in interest rate by 100 basis point per annum, will be applicable for first 12 months of eligible loans sanctioned and disbursed during the currency of the Scheme.
- The Scheme will be implemented through the Scheduled Commercial Banks (SCBs) and Housing Finance Companies (HFCs) registered with National Housing Bank (NHB).
- The Reserve Bank of India (RBI) and NHB will be Nodal Agencies for the Scheme for SCBs and HFCs respectively.
- After sanctioning and disbursing the eligible loans, the Implementing Agencies will claim disbursement of subsidy from the respective Nodal Agencies on upfront basis.

- The Government has allocated an initial sum of Rs. 300 crores for implementation of the Scheme during the current financial year.
- Department of Financial Services (DFS) has issued guidelines for implementation of the Scheme on 30.9.09. DFS has requested RBI and NHB to have the scheme implemented through Implementing Agencies.
- A brief note along with guidelines of the Scheme was circulated in the meeting of CEOs of banks, HFCs and RRBs held on October 7, 2009; the matter was deliberated upon in the meeting.
- The Scheme guidelines along with the operational modalities are being circulated among the HFCs, by the NHB.

VI. BANKING SECTOR

• CAPITAL REQUIREMENT OF PUBLIC SECTOR BANKS

Since initiation of the reform process in the banking sector in 1990-91, the thrust of the Government and the Reserve Bank of India (RBI) has been directed towards enhancing efficiency and productivity of banks, providing additional options for augmentation of capital of banks for smooth transition to Basel II norms, ensuring smooth and risk free functioning of payment and settlement system, encouraging use of advance technology in banking operations with minimum risks and according priority to financial inclusion. The operational rigidities in credit delivery system have been addressed to ensure allocational efficiency and achievement of social objectives. Further, for orderly and healthier growth of banking system in India, Government and RBI have adopted a calibrated approach to diversify ownership, improve corporate governance, minimise fragmentation and increase accountability, strengthening of prudential guidelines and supervisory norms, etc.

To enable the public sector banks achieve their growth targets while maintaining a Capital to Risk-weighted Assets Ratio (CRAR) at around 12%, Government has approved providing capital of Rs. 4,600 crore to four nationalised banks (Central Bank of India – Rs.1,400 crore, Vijaya Bank – Rs. 1,200 crore, UCO Bank – Rs. 1,200 crore and United Bank of India – Rs. 800 crore) over a period of two years i.e. 2008-09 and 2009-10. Out of this, a sum of Rs. 1,900 crore has been released to these four banks during the year 2008-09.

Further, Government has proposed to provide capital funds to other PSBs also to enable them maintain a comfortable and healthy level of CRAR to be able to meet the growing credit requirements of the economy. For the purpose, Government is negotiating with the World Bank for its assistance. Government is also working out details / amount of capital to be provided to the specific PSBs, in consultation with them.

- **ASSET QUALITY OF BANKS**

In regard to the asset quality, the gross NPAs of the public sector banks, which were as high as 17.8 per cent at end-March 1997, declined significantly to 2.08 per cent as at end-March 2009. The net NPAs of these banks during the same period declined from 9.2 per cent to 0.99 per cent. These figures too compare favourably with the international trends and have been driven by the improvements in loan loss provisioning by the banks as also by the improved recovery climate enabled by the legislative environment. What is noteworthy is that the NPA ratios have recorded remarkable improvements despite progressive tightening of the asset classification norms by the RBI over the years. The present set-up provides an effective and expeditious mechanism to the banks and financial institutions to recover their dues.

The Gross non-performing assets (NPAs) of Scheduled Commercial Banks (SCBs) have increased from Rs.55,844 crore as on 31st March, 2008 to an estimated Rs.66,962 crore as on 31st March, 2009. However, the Gross NPAs to Gross Advances ratio of these banks have very marginally increased from 2.39% to 2.40% between March, 2008 and March, 2009. The increase in amount of gross NPAs is in small scale industry (SSI) sector, other priority sector and non-priority sectors, whereas the amount of gross NPAs in agriculture sector have decreased between March 2008 and March 2009. The increase in the absolute amount of NPAs may be attributed, inter-alia, to the consolidated impact of business cyclicity, delay in implementation of projects and credit growth across the banking industry during the last few years.

- **CONSOLIDATION**

Consolidation would allow economies of scale in terms of footprint, manpower and other resources. Having Indian banks of larger size would also enable them to face competition arising from internationalization of the economy. Larger size also entails better management of risk. Small and weak banks pose systemic risks with their low capital adequacy ratio and high NPAs. Consolidation is a timely response to augment efficiency, which would lead to income generation and add to GDP of the country. The lack of global scale for Indian banks came into sharp focus during the recent financial crisis which saw several international banks renege on their funding commitments to Indian companies, but local banks could not step into the breach because of balance sheet limitations.

The current policy of the Government on consolidation leaves the initiative for consolidation to come from the management of the banks themselves with Government playing a supportive role as the common shareholder. No directive on consolidation is being issued by the Government and RBI. The Boards of Banks thus have to take a decision in this regard based on the synergy levels of merging / consolidating entities. While supporting any merger proposal, Government will ensure that the interests of the stakeholders and employees of merging banks are adequately protected

Department of Revenue

(A) Direct Taxes

Direct tax collections have grown at an average annual rate of 26.8 percent in the last five years, and have more than trebled from Rs.1,05,088 crore in financial year 2003-04 to Rs.3,38,212 crore in financial year 2008-09 increasing its share from 3.81 percent to 6.21 percent of the Gross Domestic Product (GDP). The cost of tax collection, on the other hand, has declined from 1 percent to 0.58 percent. This tremendous growth has been made possible due to improvement in tax administration as well as better tax compliance. Tax rates have been reduced over the years from a prohibitive rate of over 90 percent in the 1970s to about 30 percent at present.

2. Actual collections up to 30th September, 2009 were Rs. 152625 crore (41.25% of B.E. of Rs. 370000 cr.). Actual Personal Income Tax collections up to 30th September, 2009 were Rs. 51897 crore (46% of B.E.) and Corporation Tax collections were Rs. 100572 crore (39.17% of B.E.). The corresponding figure of actual collection for F.Y. 2008-09 was Rs. 147917 crore which was 40.53% of the Budget Estimate of Rs. 365000 crore. In short, the collection so far is 3.18% more than collection in the same period last year. The direct tax collection performance during the month is Rs. 64639 crore.

3. The National Computer Network of the department has become operational. Facilities of electronic filing of tax returns and electronic payment of taxes have received tremendous response from taxpayers. Last year, nearly a sixth of the total tax returns were filed electronically, and nearly two-thirds of the gross taxes were paid electronically. Large Taxpayer Units, where both direct and indirect tax matters of large taxpayers are dealt with in the same office are operational in four metropolitan cities and have received good response. The Centralized Processing Centre (CPC) set up at Bengaluru is likely to further speed up processing of tax returns and issue of refunds to taxpayers. The Refund Banker Scheme, which ensures that taxpayers get their refunds quickly and directly into their bank accounts, presently functional in 6 cities, will be extended to 9 more cities from October and subsequently extended to cover the entire country. Refund status can now be checked online through the Internet and also obtained through SMS. The facility of paying tax through debit card has been made operational recently.

4. To improve compliance further, tax laws need to be simple, stable and robust; tax rates should remain moderate; and multiplicity of taxes, tax exemptions and deductions should be gradually phased out in order to widen and deepen the tax base. As a major initiative towards this end and as promised, a new Direct Taxes Code has been put on the public domain for debate and discussion. The draft Code seeks to simplify, rationalise and consolidate direct tax laws while phasing out multiplicity of tax deductions and exemptions.

5. For the current financial year, the direct tax collection target has been fixed in the Budget Estimates at Rs.3,70,000 crore at a growth of 9.4 percent over the actual collection last year. With the current global slowdown affecting the Indian economy, it is not an easy target to achieve. Tax-base in India is still small and there is still substantial tax evasion or underpayment of taxes. The tax-net, therefore, needs to be deepened further. The department

is in possession of over 73 lakh pieces of information relating to high value transactions worth nearly Rs.100 lakh crore. Converting such huge information resource into revenue, particularly in view of shortage of manpower, will be a major challenge for the department.

DIRECT TAXES CODE, AUGUST, 2009

6 The thrust of the Direct Taxes Code is to improve the efficiency and equity of our tax system by eliminating distortions in the tax structure, introducing moderate levels of taxation and expanding the tax base. The attempt is to simplify the language to enable better comprehension and remove ambiguity to foster voluntary compliance. The new Code is designed to provide stability in the tax regime as it is based on well accepted principles of taxation and best international practices.

7. The Code seeks to consolidate and amend the law relating to all direct taxes, that is, income-tax, dividend distribution tax, fringe benefit tax and wealth-tax so as to establish and economically efficient, effective and equitable direct tax system which will facilitate voluntary compliance and help increase the tax-GDP ratio. Another objective is to reduce the scope for disputes and minimize litigation.

Briefly, the salient features of the Code are as under:-

- (a) Single Code for direct taxes: All the direct taxes have been brought under a single Code and compliance procedures unified. This will eventually pave the way for a single unified taxpayer reporting system.
- (b) Use of simple language: With the expansion of the economy, the number of taxpayers can be expected to increase significantly. The bulk of these taxpayers will be small paying moderate amounts of tax. Therefore, it is necessary to keep the cost of compliance low by facilitating voluntary compliance by them. This is sought to be achieved, inter alia, by using simple language in drafting so as to convey, with clarity, the intent, scope and amplitude of the provision of law. Each sub-section is a short sentence intended to convey only one point. All directions and mandates, to the extent possible, have been conveyed in active voice. Similarly, the provisos and explanations have been eliminated since they are incomprehensible to non-experts. The various conditions embedded in a provision have also been nested. More importantly, keeping in view the fact that a tax law is essentially a commercial law, extensive use of formulae and tables has been made.
- (c) Reducing the scope for litigation: Wherever possible, an attempt has been made to avoid ambiguity in the provisions that invariably give rise to rival interpretations. The objective is that the tax administrator and the tax payer are ad idem on the provisions of the law and the assessment results in a finality to the tax liability of the tax payer. To further this objective, power has also been delegated to the Central Government/board to avoid protracted litigation on procedural issues.
- (d) Flexibility : The structure of the statute has been developed in a manner which is capable of accommodating the changes in the structure of a growing economy without resorting to frequent amendments. Therefore, to the extent possible, the essential and general principles have been reflected in the statute and the matters of detail are contained in the rules/Schedules.
- (e) To ensure that the law can be reflected in a Form : For most taxpayers, particularly the small and marginal category, the tax law is what is reflected in the Form. Therefore, the structure of the tax law has been designed so that it is capable of being logically reproduced in a Form.

- (f) Consolidation of provisions : In order to enable a better understanding of tax legislation, provisions relating to definitions, incentives, procedure and rates of taxes have been consolidated. Further, the various provisions have also been rearranged to make it consistent with the general scheme of the Act.
- (g) Elimination of regulatory functions : Traditionally, the taxing statute has also been used as a regulatory tool. However, with regulatory authorities being established in various sectors of the economy, the regulatory function of the taxing statute has been withdrawn. This has significantly contributed to the simplification exercise.
- (h) Providing stability : At present, the rates of taxes are stipulated in the Finance Act of the relevant year. Therefore, there is a certain degree of uncertainty and instability in the prevailing rates of taxes. Under the Code, all rates of taxes are proposed to be prescribed in the First to the Fourth Schedule to the Code itself thereby obviating the need for an annual Finance Bill. The changes in the rates, if any, will be done through appropriate amendments to the Schedule brought before Parliament in the form of an Amendment Bill.

(B) Indirect Taxes

Actual collections in respect of Customs duty up to 31st August, 2009 were Rs. 31155 crore (31.8% of B.E.). Actual collections in respect of Central Excise duty up to 31st August, 2009 were Rs. 33602 crore (32% of B.E.). Actual collections in respect of Service tax up to 31st August, 2009 were Rs. 19088 crore (29.4% of B.E.). The corresponding figures in respect of Customs, Excise duties and Service tax for F.Y. 2008-09 were Rs. 47735 crore (40.1% of B.E.), Rs. 45079 crore (B.E. 33%) and Rs. 19349 crore (B.E. 30%) respectively. The growth rate in 2009-10 over the previous year is -34.7% for Customs duty, -25.5% for Central Excise duty and -1.3% for Service tax. The indirect tax collection performance during the month is Rs. 21194 crore.

2. The new Foreign Trade Policy (2009-2014) has since been issued by the Commerce & Industries Ministry on 27.08.2008. The Department of Revenue has issued Notification Nos. 91-103/2009-Cus dated 11.09.2009; 104-105/2009-Cus dated 14.09.2009 and 112/2009-Cus dated 29.09.2009 to implement the Policy. The silent features of the Policy have been explained in Circular No.26/2009-Cus dated 30.09.2009. A copy of the Circular is annexed.

3. As regards the All Industry Rates of Duty Drawback for the year 2009-10, the Government has appointed a Committee headed by Shri Saumitra Chaudhuri, Member, Planning Commission of India to recommend the same. The tenure of the Drawback Committee has been extended till 31.10.2009 on its request. The Committee is expected to give its report by 31st October, 2009.

4. In order to strengthen the effectiveness of tax administration in a non-intrusive manner to develop intelligence for detecting Excise Duty and Service Tax evasion cases, the CBEC has started collecting information from third party sources like electricity consumption data, installed capacity of units, information from TDS returns filed with Income Tax department from October, 2008. Initial results are encouraging and a number of manufacturing units have been taken up for investigation.

5. Some of the major initiatives taken during the last year with regard to Service Tax are as follows:

- i) Service Tax (Publication of Names) Rules 2008 notified vide Notification 15/2008 – ST dated 01.03.2008 provides for publication of names of defaulters of Service Tax in certain conditions.
 - ii) Exemption limit for the purpose of levy of service tax was raised from Rs. 8 lakh to Rs. 10 lakh vide Notification No. 08/2008 – ST dated 01.03.2008.
 - iii) Service Tax (Provisional Attachment of Property) Rules, 2008 notified vide Notification No. 30/2008 – ST dated 01.07.2008 provides for attachment of immovable property of service tax assesseees in certain cases.
 - iv) Service Tax Return Preparer Scheme 2009 notified vide Notification No. 07/2009 – ST dated 03.02.2009. It provides for introduction of Preparers of service tax returns on the lines of Income Tax return preparers.
 - v) Exemption granted to various services received by Goods Transport Agency service vide Notification No. 1/2009-ST dated 05.01.2009 has been given retrospective effect from 01.01.2005 in the Finance (No. 2) Bill 2009.
 - vi) The FIEO and specified export promotion councils has been exempted from service tax vide Notification No. 16/2009 – ST dated 07.07.2009.
 - vii) To expedite grant of refund to exporters the procedure has been revamped vide Notification No. 17/2009 – ST dated 17/2009.
 - viii) Foreign Commission agent and GTA services has been granted exemption from service tax, when used in connection with export of goods, vide Notification No. 18/2009 – ST dated 07.07.2009.
 - ix) Notification o. 25/2009 –ST dated 19.08.2009 amends the Export of Services Rules, 2005 to clarify “India” to include the installations, structures and vessels in the continental shelf of India and the exclusive economic zone of India

6. Handling of Cargo in Customs Area Regulations, 2009 was issued on 17.3.2009 to provide for a comprehensive mechanism for handling of goods in a Customs area and to provide the terms and conditions for all facilities where Customs cargo is handled. It also provides for the conditions and responsibilities of the persons handling import or export cargo in Inland Container Depot (ICD) or Container Freight Station (CFS) or seaport or airport or Land Customs Stations (LCS) and provide adequate control over the cargo handling entities to ensure that the adequate infrastructure is set up at such facilities for efficient handling of import or export cargo.

(C) Introduction of Goods and Service Tax

The views of EC have been examined in depth at the Ministry, in consultation involving the Tax Research Unit, Central Board of Excise & Customs, Commissioner Service Tax and Commissioner Central Excise also. The consolidated comments of the Department of Revenue, Ministry of Finance had been conveyed to the EC in December, 2008, so as to streamline the GST design and facilitate working out of further details by them.

2. EC has taken up re-examination of the GST Model with a view to suitably incorporate changes suggested by Govt. of India. EC has constituted three Sub Working Groups (SWGs) consisting of the officials from State Government as well as from Union Government to work out details like treatment of inter-state transfers, threshold limit above which registration under GST would be must and list of exempted Goods and Services etc. These Sub Working Groups have submitted their reports which are consideration of the Empowered Committee at present.

3. A group consisting of officers of the Central Government, the State Governments and the Empowered Committee (EC) of State Finance Ministers has been constituted to suggest drafts of the Constitutional Amendments necessary, the model Central and State Legislations Rules, etc. Discussions between the EC and the Government of India on various details are also going on.

(D) Illegal money of Indian citizens outside the country

The Government is fully seized of the issue of illegal money of Indian citizens outside the country in secret bank accounts and is vigorously pursuing all necessary steps in coordination with the countries concerned. Dates for renegotiation of article concerning exchange of information to broaden its scope with existing treaties countries like Switzerland and Belgium have been finalized. Further, letter has also been written to Germany for renegotiations, through MEA. Countries, which may be considered for entering into Tax Information Exchange Agreements (TIEAs) have been short listed and model TIEA is in the last stage of finalization. The Income Tax Act, 1961 has been amended through Finance Act, 2009 with a new formulation which will enable the Central Government to enter into tax agreements with non sovereign jurisdiction. Further, options for domestic measures to obtain information on bank accounts maintained abroad by Indian citizens is also under way.

(E) Directorate of Enforcement

I. Role of Directorate of Enforcement under PMLA, 2002

The Prevention of Money Laundering Act, 2002 (hereinafter referred to as PMLA) has come into being from 1-7-2005. This Act creates the authority viz Directorate of Enforcement to combat the money-laundering [ML] offence connected with several criminal scheduled offences including terrorist Act and financing of terrorism [FT] in India. This Act, has created Four statutory bodies to fulfill the various legal obligations cast by the law such as The (i) Director of Enforcement responsible for prosecuting the person accused of Money-laundering, (ii)The Director of FIU to supervise the functions of FIU-IND and (iii) Adjudicating Authority to decide the issue of involvement of any property in act of money-laundering or otherwise.(iv)Special Courts to take cognizance of offences punishable under PMLA.

II. HIGHLIGHTS AND ACHIEVEMENTS OF THE DIRECTORATE

(a) Under FERA & FEMA

(i) During the year 2006-07 Directorate of Enforcement conducted 76 searches and 93 searches during the year 2008-09 (increase of 22.36%); seizure of Indian Currency and

equivalent Foreign Currency by the Directorate during 2006-07 was Rs. 880.05 lacs which rose Rs. 1632.85 lacs (increase 85.54%); penalties recovered under FERA and FEMA during the year 2006-07 were Rs 715.36 lacs and Rs. 129.20 lacs respectively which was Rs. 1342.70 lacs and Rs. 155.88 lacs in 2008-09 an increase of 87.70% and 20.65% respectively.

(ii) UNDER PREVENTION OF MONEY LAUNDERING ACT (PMLA), 2002

Under the Prevention of Money Laundering Act (PMLA) the Directorate against 7 Provisional Orders of Attachment in 2006-07 the Directorate issued more than 3 times Provisional Orders of Attachment during 2008-09, the value of Provisionally Attached Properties being more than 41 times from Rs. 4244 lacs from Rs. 102 lacs in the similar period.

During 2009-10, under PMLA, the Directorate of Enforcement has provisionally attached 287 immovable properties and more than 34 lacs shares of M/s Satyam Computers lying in the DEMAT Account, their cumulative value being more than Rs. 200 crores. The complaint has also been filed before Adjudicating Authority for confirmation of the said Provisional Attachment Order. Further, enquiries are in progress to trace the proceeds of crime and take appropriate action for attachment thereof.

Under FEMA, there is general permission with regard to maintenance and operation of Accounts outside India by persons resident in India, subject to certain specified contingencies. However, as per existing provisions of FEMA and the Regulations made thereunder, still no person resident in India can maintain or/and operate any account either with any bank or any financial institution or even with any person, outside India, except with the general or special permission of Reserve Bank of India.

Whenever any case of instance of any unauthorized maintenance, operation and holding of any Foreign Bank Account, by a person, in the form of "BLACK MONEY" comes to the notice of the Government, appropriate action under FEMA, is taken by the Directorate of Enforcement, immediately, to bring the guilty to justice and take action in the confiscation of such foreign holdings lying abroad, by repatriation of the said funds to India, through normal banking channels.

(F) International Taxation & Tax Treaties

CBDT, is working towards negotiating Double Taxation Avoidance Agreements/Conventions (DTAAs/DTACs) with various countries. These Divisions are also dealing with various matters related to bilateral/multilateral international organizations so as to ensure closer co-operation in taxation related issues at international level. Various issues/developments of policy initiatives and achievements related to these Divisions during the current financial year are as under:

i. **Notification of DTACs with Serbia and Montenegro:**

The DTACs with Serbia and Montenegro were notified in the Gazette of India vide S.O.97(E) dated 7th January 2009 and S.O.96(E) dated 7th January 2009 respectively.

Both the Conventions entered into force on 23rd September, 2008 and have been given effect to in India with respect to taxes withheld at source, for amounts paid or credited on or after 1st April 2009 and with respect to taxes on income for any financial year beginning on or after 1st April 2009. The salient features of both the DTACs are as under:

- The DTACs will cover taxation of income, surcharge thereon and wealth tax in the case of India and in the case of Serbia and Montenegro, profit tax, the income tax and the tax on capital and tax on revenue from international transport;
- In order to promote trade and investment, the DTACs provide for moderate rates of taxes on certain categories on income in line with our recently concluded treaties;
- The DTACs also have provision for exchange of information and for a mutual agreement procedure to resolve issues arising out of the application of DTAC.

The Conventions will further stimulate the flow of capital, technology and personnel between India and the two countries.

ii. **Notification of DTAA with Luxembourg:**

The DTAA with Luxembourg was notified in the Gazette of India vide Notification No.78/2009 dated 12th October, 2009.

The Agreement entered into force on 9th July, 2009 and shall have effect in India in respect of the taxes withheld at source, to income derived on or after 1st April, 2010 and in respect of other taxes on Income, and taxes on capital to taxes chargeable for any taxable year beginning on or after 1st April, 2010.

The DTAA will cover in the case of India, the income tax and the wealth tax including any surcharge thereon. In the case of Luxembourg it would cover the Income tax on individuals, the corporation tax, capital tax and the communal trade tax.

The DTAA provides for taxation of dividend, interest, royalties and fees for technical services both in the country of residence as well as the country of source. However, the rate of tax in the country of source shall not exceed ten percent of the gross amount of payment in case the beneficial owner of the payments is a resident of the other Contracting State. The DTAA provides that capital gains from alienation of shares of a company shall be taxable in the country where the company is a resident. The incidence of double taxation shall be avoided by one country giving credit for taxes paid by its residents in the other country. There is a provision for exchange of information in cases, which are under investigation in either of the two countries. Both the countries shall assist each other in collection of revenue claims. There is also a provision for limitation of benefits under the DTAA to prevent misuse of the provisions of the DTAA.

The Agreement will further stimulate the flow of capital, technology and personnel between the two countries. It will also contribute to the tax stability and facilitate mutual cooperation.

iii. **Approval of Cabinet for DTAA's:**

Cabinet approval was obtained in December 2008 and January 2009 for concluding and entering into DTAA's with Finland and Albania respectively. The Agreements will be signed at Government level after completion of requisite procedures of the other countries

and thereafter will enter into force in accordance with the provisions contained in the relevant Article of the Agreements.

iv. **Negotiations in progress for entering into DTAA:**

The second round of negotiations to revise the existing DTAA with Malta was held in February 2009.

v. **Notification related to DTAA:**

During the year a notification vide S.O.2106(E) dated 12th August 2009 was issued for including Agence Francaise de Developpement in list of institutions mentioned in sub-clause (II) of clause (a) of paragraph 3 of Article 12 of the India-France Double Taxation Avoidance Convention, thereby exempting interest income of this institution arising in India from Indian Income-tax.

vi. **Steps taken to unearth unaccounted money outside the country:**

Various steps taken to unearth the unaccounted money outside the country are detailed in the Annexure.

vii. (a) **Double Taxation Avoidance Agreements (DTAAs)**

1. The following DTAAs were notified in the Official Gazette of India:

- (i) Revised DTAA with Syria was notified on 30th March, 2009.
- (ii) DTAA with Myanmar was notified on 19th June, 2009.
- (iii) DTAA with Tajikistan was notified on 16th July, 2009.

2. DTAAs were concluded and signed at the official level in the following cases:

- (i) Revised DTAA with Tanzania.
- (ii) DTAA with Mozambique.

3. Following DTAA negotiations were held during the period January, 2009 to September, 2009:

- (i) DTAA with Ethiopia: 2nd round of negotiations was held at Addis Ababa from 12th to 16th January, 2009.
- (ii) DTAA with Colombia: 1st round of negotiations was held at New Delhi from 9th to 13th February, 2009.
- (iii) Revised DTAA with Nepal: 2nd round of negotiations was held at Kathmandu from 3rd to 6th March, 2009.
- (iv) DTAA with Mozambique: 2nd round of negotiations was held at Maputo from 25th to 27th March, 2009 during which the Agreement was concluded.
- (v) Revised DTAA with Tanzania: 3rd round of negotiations was held at New Delhi from 28th to 30th April, 2009 during which the revised Agreement was concluded.
- (vi) Revised DTAA with Qatar: 1st round of negotiations for revision of the DTAA was held at Doha Qatar from 14th to 16th April, 2009. The 2nd round of negotiations was held at New Delhi from 13th to 15th July, 2009.

- (vii) DTAA with Bhutan: 1st round of negotiations was held at New Delhi from 3rd to 7th August, 2009.

(b) **India-Brazil-South Africa (IBSA) Forum:**

The 5th and 6th IBSA (India-Brazil-South Africa) Revenue Administrations Steering Group (RASG) meeting was held on 14th and 15th September, 2009 at Mount Grace, South Africa. The Indian delegation from CBDT for this meeting comprised Chairman, CBDT, JS(FT&TR-II) and DIT(Transfer Pricing), Mumbai. The RASG meeting was followed by the 4th IBSA Heads Revenue Administrations Working Group (HRAWG) meeting on 16th and 17th September, 2009. The Indian delegation for this meeting was headed by the Revenue Secretary. At the end of the meetings, a Joint Statement was issued by the heads of the three revenue administrations. In the direct tax area, the three revenue administrations agreed to further their cooperation in the areas of large tax payer units, risk profiling, assessment, computerization, capacity building in tax administration, exchange of information, tax avoidance and abuse of DTAAAs and transfer pricing. The HRAWG resolved to create an “Electronic Centre for Exchange of Information” between the three IBSA countries. They also deliberated upon the extent of global financial and economic crisis and agreed that the challenges posed by the crisis requires a coordinated response and robust partnership between the developed and developing countries.

Steps taken to unearth unaccounted money outside the country

(1) Amendment to the Income-tax Act, 1961:

Government has substituted section 90 of the Income-tax Act 1961 through Finance (No.2) Act, 2009 with a new formulation which will enable the Central Government to enter into tax agreements with non-sovereign jurisdictions. Since many of the offshore centers (generally perceived as tax havens) are non-sovereign jurisdictions, this provision will enable Government of India to enter into Agreement for the Exchange of Information and Assistance in Collection of Taxes (AEI&ACT) with these jurisdictions.

(2) Steps taken to initiate negotiations for entering into Agreements for the Exchange of Information and Assistance in Collection of Taxes (AEI&ACT):

Department of Revenue has written to Ministry of External Affairs (MEA), with respect to 15 prioritized countries/jurisdictions, for taking up the matter with these countries/jurisdictions for entering into AEI&ACT with them. A copy of our draft AEI&ACT has also been provided. Once agreements with these countries/jurisdictions are negotiated and enter into force, India will be able to obtain information, including bank related information from such countries/jurisdiction.

(3) Renegotiation of Tax Treaty with Switzerland:

Our existing tax treaty with Switzerland does not provide for exchange of bank related information as well as information which is required for Indian domestic purpose only. Switzerland was approached in April, 2009 through MEA for renegotiation of the Article concerning Exchange of Information in our existing tax treaty so that we can have access to bank related information. Switzerland has agreed for renegotiation of this Article and the meeting for this purpose is scheduled for 8th to 10th December, 2009. Once the protocol amending tax treaty with Switzerland is notified, India will be able to obtain bank related information in specific cases from Switzerland.

(4) Renegotiation of remaining Tax Treaties:

Some of our other tax treaties in force also do not specifically provide for exchange of bank related information as well as information which is required for Indian domestic purpose only. MEA has already been approached for negotiation of tax treaties so that we can have access to bank related information with respect to these countries.

(5) India a part of Global efforts to take action against Non-Cooperative Jurisdictions:

India has been actively taking part in building global consensus for taking action against those jurisdictions/countries who are not transparent or co-operative in exchanging information with other countries. In the latest initiative in this regard, Indian Finance Minister participated in recent G 20 Finance Ministers meeting at London on 4-5 September 2009. India played active role in finalizing the Declaration which included an action of delivering an effective programme of peer review, capacity building and countermeasures to tackle non-cooperative jurisdictions that fail to meet regulatory standards, Anti-Money laundering/CFT and tax information exchange standards. Commitment has been given in the Declaration that countries stand ready to use countermeasures against tax havens from March 2010. India has also been elected, in September 2009, as Vice-Chair of the Peer Review Group set up by Global Forum which shall play an important role in reviewing various jurisdictions in terms of compliance with international standards on transparency and exchange of information.

DEPARTMENT OF EXPENDITURE

Rationalization of Expenditure

Relevant guidelines were issued to further economy and rationalization of expenditure. This was because of the current fiscal situation and insufficient rain in large parts of the country. These guidelines encompass various measures like cut in Non- Plan Expenditure by 10% on specified items and 5% on rest of the items. Interest payments, repayment of debt, defence capital, salaries, pension and the Finance Commission grants to the states are excluded from the cut;

- 10% cut on the budgetary allocation for seminars and conferences, banning on holding of meetings and conferences in five star hotels;
- Banning air travel by first class and prescribing that all domestic travel on Govt. account by air takes place only by economy class;
- Ban of purchase of new vehicles and continuation of other instructions of previous year on publicity, usage of telephones, ban on creation of plan and non-plan posts, balanced pace of expenditure, observance of discipline in fiscal transfers to states, PSUs and Autonomous Bodies at Central / State/ Local level.

In consonance with the latest economy instructions issued by this Department, appropriate economy measures have been laid down to rationalize the expenditure of autonomous bodies.

PLAN FINANCE

1. Introduction:

- **Expenditure Budget 2009-10**, Demand No.35 with Ministry of Finance relates to transfers to States and Union Territory Governments including non-plan grants/loans, grants for State Plan schemes and relief on account of natural calamities.
- This Demand includes provision of National Social Assistance Programme (NSAP), Nutrition Programme for Adolescent Girls (NPAG), National e-Governance Plan (NeGAP), Accelerated Irrigation Benefits Programme (AIBP), Accelerated Power Development Programme (.APDRP), Jawaharlal Nehru National Urban Renewal Mission (JNNURM), Normal Central Assistance (NCA), Border Area Development Programme(BADP),Backward Region Grant Fund (BRGF), Tsunami Rehabilitation Programme (TRP), Additional Central Assistance (ACA) for Externally Aided Project (EAP) and ACA for various other projects. Details are given at Annexure I.

Provision has also been made for two newly introduced schemes ACA for infrastructure support for opening Bank branches in unbanked areas, and ACA for accelerated programme of restoration and regeneration of forest cover.

- Demand No.35 further provides for grants payable to States under Article 275(1) of the Constitution of India on the basis of the recommendations of the Twelfth Finance Commission, Block grants for State Plan Schemes, short term Ways and Means Advances to States and assistance from National Calamity Contingency Fund (NCCF).

2. **Details of Important State-Sector Schemes**

A. Backward Regions Grant Fund (BRGF)

Union Finance Minister, in his Budget Speech for 2005-06, had announced the establishment of Backward Regions Grant Fund (BRGF). However, this scheme could not be approved during 2005-06 and an allocation of Rs. 5000 crore had been made for the year 2006-07.

- The Backward Regions Grant Fund has been approved during the year 2006-07 replacing the Rashtriya Sam Vikas Yojana (RSVY).
- The decisions taken with regard to the BRGF are as under:
 - (i) The BRGF would consist of two components, namely, (a) Districts Component covering 250 districts, and (b) Special Plans for Bihar and the undivided Kalahandi-Bolangir- Koraput (KBK) districts of Orissa.
 - (ii) The implementing Ministry for the BRGF districts would be the Ministry of Panchayati Raj, This Ministry would lay down the guidelines for implementation of the BRGF in consultation with the Planning Commission. The Planning Commission would play the role of adviser and monitor the progress of the scheme.
 - (iii) In the Eleventh Plan, a provision of Rs.1000 crore per annum would be made for the Special Plan for Bihar. A total of Rs. 250 crore will be provided for the KBK districts, including funds under the BRGF district norms and the KBK Special Plan.
 - (iv) Districts where RSVY is continuing will receive funds as per RSVY norms till an amount of Rs.45 crore (plus the existing monitoring fee) is released to each district, after which these districts will shift to the BRGF's standard mode of funding i.e. a fixed amount of Rs.10 crore per district per year and the remaining amount on equal weightage for area and population.
 - (v) An additional amount of Rs. 250 crore per year would be provided for capacity building, preparation of district / block / village plans, training / acquisition of technical inputs / monitoring.

- (vi) Funds under the BRGF would be allocated as Additional Central Assistance on 100% grant basis, to be met out of Central assistance for State Plans as part of the Annual Plans of the States.
 - (vii) Assistance to the new programme would be made available during 2006-07 and during the Eleventh Plan period.
 - (viii) Budget provision for the Districts Component of the BRGF would be made in the Demand for Grants of the Ministry of Panchayati Raj. The funds for the Special Plans for Bihar and the KBK districts of Orissa would continue to be provided in the Demands of the Ministry of Finance.
- The allocation under Demand No. 35 which rests with Ministry of Finance and the releases made by MoF for the last 3 years in respect of Special plan for Bihar and KBK District of Orissa, are as under:

(Rs. in crore)

Year	Allocation	Release
2006-07	1250	1250
2007-08	1130	1130
2008-09	1130	1130
2009-10 (as on 20.10.09)	1130	448.67

Note- Allocation for Special plan for Bihar is Rs. 1000 cr. annually and for KBK district of Orissa Rs. 250 cr. in 2006-07 and Rs. 130cr. in 2007-08 to 2009-10 each year.

B. National Social Assistance Programme(NSAP)

- The National Social Assistance Programme(NSAP) which came into effect from 15th August,1995 represents a significant step towards the fulfillment of the Directive Principles in Article 41 of the Constitution. The programme introduced a National Policy for Social Assistance for the poor and aims at ensuring minimum national standard for social assistance in addition to the benefits that states are currently providing or might provide in future. NSAP at present, comprises of Indira Gandhi National Old Age Pension Scheme (IGNOAPS), Indira Gandhi National Widow Pension Scheme (IGNWPS), Indira Gandhi National Disability Pension Scheme (IGNDPS), National Family Benefit Scheme (NFBS) and Annapurna.
- NSAP was operated as a Centrally Sponsored Scheme by the M/o Rural Development upto 2002-03, when it was transferred to the State Sector. With this change, the funds for the operation of these schemes are now being released as Additional Central Assistance (ACA) to the States by the Ministry of Finance. The ACA to be provided to the States/UTs for the NSAP and Annapurna Scheme is decided by the Planning Commission, while the State-wise allocation of ACA is made by the Ministry of Rural Development and Planning Commission.

Financial Progress

(Rs. in lakhs)

Year	Combined Allocation	Total Releases
2002-03	68000.00	65709.86
2003-04	67987.00	60226.79
2004-05	118987.00	103201.74
2005-06	119000.00	118971.00
2006-07	248097.00	248961.44
2007-08	289146.00	285137.00
2008-09	444224.00	444223.78
2009-10 (as on 20.10.09)	510924.00	426053.00

Physical Progress

Year	Coverage of Beneficiaries				
	NOAPS	NFBS	Annapurna	IGNWPS	IGNDPS
2002-03	7471509	85209	796682	-	-
2003-04	6534000	209456	958669	-	-
2004-05	8079386	261981	850768	-	-
2005-06	8002561	272828	857079	-	-
2006-07	8645371	171232	750319	-	-
2007-08	14353816	258827	894115	-	-
2008-09	15719000	435070	1083000	4372758	1543467
2009-10	15599369	432384	1006275	4372758	1543467

The budget allocation made for NOAPS, NFBS, Annapurna, IGNWPS & IGNDPS together is Rs 5109.24 Cr during 2009-10 out of which Rs 4260.53 Cr have already been released till 20.10.2009.

C. Long term Reconstruction of Damaged Infrastructure due to Natural Calamities in 2005.

- The existing schemes of Calamity Relief Fund(CRF)/National Calamity Contingency Fund (NCCF) do not provide for assistance for long term rehabilitation and reconstruction of damaged infrastructure.
- The Hon'ble Finance Minister in his budget speech 2006-07 had assured the House that the Govt. will provide funds for rehabilitation and reconstruction of the damaged infrastructure for the States affected by natural calamities during the year 2005.

- The Cabinet has so far approved the proposal for long term reconstruction plan affected by natural calamities of 2005 in respect of 12 States and one UT namely J&K, Andhra Pradesh, Gujarat, Himachal Pradesh, Karnataka, Kerala, Madhya Pradesh, Maharashtra, Tamil Nadu, Uttar Pradesh, Arunachal Pradesh, Sikkim and Puducherry.
- The Financial assistance would flow to these States under the State Plan as ACA in the ratio of 70% loan & 30% grant in case of General Category States and 10% loan and 90% grant for Special Category States. The loan portion of the Central Assistance would have to be raised by the States.
- During 2006-07 and 2007-08, Ministry of Finance had released the net grant component of Rs.296.58 crore (after adjusting excess release from NCCF amounting to Rs.275.71 crore) to the State of J&K.
- The reconstruction plan and also the net grant component payable after adjusting the excess release from NCCF in r/o 11 States and 1 UT are as under:-

(Rs in crore)

States	Reconstruction Plan recommended by HLC	Grant component	Loan component	Excess releases from NCCF	Net Grant Payable from Special Plan Assistance (3-5)
1.	2.	3.	4.	5.	6.
Andhra Pradesh	582.06	174.61	407.45	27.71	146.90
Gujarat	1307.90	392.37	915.53	195.69	196.68
Himachal Pradesh	129.94	116.95	12.99	25.14	91.81
Karnataka	769.09	230.73	538.36	158.15	72.58
Kerala	58.44	17.53	40.91	12.72	4.81
Madhya Pradesh	63.41	19.02	44.39	Nil	19.02
Tamil Nadu	1077.72	323.31	754.41	191.65	131.66
Uttar Pradesh	335.10	100.53	234.57	Nil	100.53
Arunachal Pradesh	399.20	359.28	39.92	-	359.28
Sikkim	83.59	75.23	8.36	-	75.23
Puducherry #	32.12	9.64	22.48	-	9.64
Maharashtra*	999.60	299.88	699.72	362.23	-62.35*
Total	5838.17	2119.08	3719.09	973.29	1208.14

* The amount recoverable from the State of Maharashtra was proposed to be adjusted from the future releases of NCCF).

ACA for Puducherry would be released by MHA.

Note: (1) The States will raise the loan component on their own subject to approval of Gol under Article 293(3) of the Constitution.

(2) regarding the only left over State i.e. Nagaland, no information is available either from Planning Commission or IMC (NDMA).

- As per approval, the net grant of ACA is to be released to these States in two equal installments. Second installment would be released only upon utilization of 75% of the amount released earlier.
- A total ACA amounting to Rs. 645.15 Cr. (which includes first installment i.e. 50% to 9 States and 100% grant to Himachal Pradesh) had been released under the scheme in 2008-09. During the current year (2009-10), only Govt. of Arunachal Pradesh has forwarded necessary Utilization Certificate for release of 2nd installment. (UCs from remaining 8 States are still awaited). Necessary funds have been sought to meet the requirement of Arunachal Pradesh under the Scheme.

D. Border Area Development Programme (BADP)

The Border Area Development Programme (BADP) was started during the Seventh Plan with the twin objectives of balanced development of sensitive border areas in the Western region through adequate provision of infrastructure facilities and promotion of a sense of security amongst the local population. The programme was revamped in the Eight Plan (1993-94) and extended to States, which have an international border with Bangladesh.

- The nature of the Programme was changed from a schematic programme with emphasis on education to a State level Programme with emphasis on balanced development of border areas.
- During the Ninth Plan, the programme has been further extended to States, which border Myanmar, China, Bhutan and Nepal. At present this programme covers all the seventeen States namely Arunachal Pradesh, Assam, Bihar, Gujarat, Himachal Pradesh, Jammu & Kashmir, Manipur, Meghalaya, Mizoram, Nagaland, Punjab, Rajasthan, Sikkim, Tripura, Uttar Pradesh, Uttaranchal and West Bengal which share international border with neighboring countries.
- The main objective of the Programme is to meet the special developmental needs of the people living in remote and inaccessible areas situated near the international border.
- The Border Area Development Programme continues to be a 100% centrally funded Area Programme. Funds are provided to the States as Special Central Assistance for execution of approved schemes on a 100% grant basis and allocated amongst the seventeen beneficiary States on the basis of (i) length of international border (ii) population of border blocks and (iii) area of border blocks. Each of these criteria is given equal weightage.
- The border block will be the spatial unit for the programme and all schemes would have to be implemented within the border blocks only.
- The work of BADP was handled by the Planning Commission up to the year 2003-04. Later on this Scheme was transferred from the Planning Commission to M/o Home Affairs and presently being handled in the Department of Border Management in MHA. Funds are being released to States in two instalments- the first instalment of

90% to be released on receipt of the schemes approved from the year (based on lock level plans) by the State Level Screening Committee and the balance 10% when 70% of the funds released during the preceding year have been utilised. The details of funds allocated and released to the State Governments under BADP during 2006-07, 2007-08, 2008-09 and 2009-10 are as under:-

(Rs. in crore)

Year	Allocation	Released
2006-07	520.00	520.00
2007-08	580.00	580.00
2008-09	635.00	635.00
2009-10	635.00	310.32 (as on 20.10.2009)

E. Nutrition Programme for Adolescent Girls (NPAG)

Nutrition Programme for Adolescent Girls (NPAG) was launched by the Planning Commission in the year 2002-03 in pursuance of the announcement of the then Prime Minister on 15th August 2001, with a view to provide food grains at subsidised rates to adolescent girls and expectant and nursing mother belonging to Below Poverty Line families.

- NPAG started in 51 backward districts on Pilot Project basis initially for a period of two years viz.; 2002-03 and 2003-04, to provide food grains @ 6kg per beneficiary per month irrespective of financial status of the family to undernourished adolescent girls (weight < 35 kg) and pregnant/ lactating women (weight < 40 Kg).
- In 2004-05, the programme could not be implemented as approval at the competent level could not be obtained in time.
- In 2005-06, NPAG was transferred to M/o Women & Child Development and implemented confining to adolescent girls only as pregnant and lactating mothers are covered under the ICDS scheme.
- During 2005-06, 2006-07 and 2007-08, the programme was implemented after obtaining the approval of CCEA, every year.
- MoWCD is also contemplating for expansion of NPAG in all districts in the country and its merger with Kishori Shakti Yojana (KSY) involving an allocation of approximately Rs.1600 crore per annum. MoWCD has finalised the EFC Note for the merged scheme, "Rajive Gandhi Scheme for Empowerment of Adolescent Girls" and stated to have circulated to the concerned Ministries/Departments for comments.
- In 2008-09, the CCEA approved the proposal of M/o WCD for continuation of the Programme in the year 2008-09 in existing 51 Districts as per existing Guidelines. Free food-grains at BPL rates, @Rs.6 Kg. per beneficiary per month, would be provided to the beneficiaries for which two cut off weights viz. 30 Kg for those below 15 year of age and 35 Kg over 15 years of age would be used for identification of the beneficiaries. Funds are released as Special Central Assistance (on 100% Grant basis) to States / UTs out of the allocated amount of Rs.162.77 crore for the year 2007-08.

- Finance Ministry released funds to States as Central Assistance (100% grant basis) during 2002-03 to 2008-09 under NPAG. The details of funds allocated and released to the State Governments under NPAG during 2002-03 to 2009-10 are as under:-

(Rs. in crore)

Year	Allocation BE/RE	Released
2002-03	103.33	53.95
2003-04	141.40	40.04
2004-05	141.40	0.00
2005-06	162.97	62.05
2006-07	162.77	64.47
2007-08	75.00	60.28
2008-09	162.77	23.32
2009-10	162.77	49.55 (as on 20.10.09)

F. National e-Governance Plan (NeGP)

The Government approved the National e-Governance Plan (NeGP), comprising of 27 Mission Mode Projects (MMPs) and 8 components, on May 18, 2006. The Scheme envisions making all Government services accessible to the common man in his locality, through common service delivery outlets and ensure efficiency, transparency & reliability of such services at affordable costs to realise the basic needs of the common man. At present there are 3 major Components operational under the Scheme:-

(i) Common Service Centres: The Government has approved a Common Services Centres (CSCs) Scheme for providing support for establishing 100,000 Common Services Centers in 600,000 villages of India. The Scheme, as approved by the Government of India, envisions CSCs as the front-end delivery points for Government, private and social sector services to rural citizens of India, in an integrated manner.

(ii) State Wide Area Networks (SWAN): The SWAN Scheme for 29 States & 6 Union Territories, at an estimated outlay of Rs.3334 Crores, was approved by Govt. of India, in March 2005 to set up State Wide Area Networks (SWAN), interconnecting each State / UT Head Quarter with District Head Quarter and below each District Head Quarter with the Block Head Quarters with minimum 2 Mbps leased line.

(iii) State Data Centres (SDC): State Data Centre (SDC) has been identified as one of the important element of the core infrastructure for supporting e-Governance initiatives of National e-Governance Plan (NeGP). Under NeGP, it is proposed to create State Data Centres for the States to consolidate services, applications and infrastructure to provide efficient electronic delivery of G2G, G2C and G2B services.

The Ministry of Communications and Information Technology is the nodal Ministry in charge of the Scheme. In 2008-09, as against the budget allocation of Rs.469.37 crore, Rs.284.22 crore was released. The budget allocation for 2009-10 is Rs.469.37 crore.

G. Jawaharlal Nehru National Urban Renewal Mission(JNNURM)

- The JNNURM scheme was approved by Cabinet in December, 2005 and is scheduled for a period of 7 years until 2012.
- The main objective of the scheme is to provide integrated development of infrastructural services in cities including the peri-urban areas; to secure effective linkages between asset creation and asset management so that assets created become self sustaining, to take up urban renewal i.e. re-development of older cities etc. The main thrust of the Schemes is on creation of infrastructure projects relating to water supply, including sanitation, sewerage, solid management, urban renewal, urban transport etc. and housing for the poor.
- The scheme is reform driven and has 4 components :-
 - 1) Sub-Mission on Urban Infrastructure and Governance (UIG).
 - 2) Urban Infrastructure Development Scheme for Small and Medium Towns (UIDSSMT).
 - 3) Sub-Mission on Basic Services to Urban Poor (BSUP).
 - 4) Integrated Housing and Slum Development Programme (IHSDP).
- State Govts. and ULBs are required to accept implementation of an agenda of reforms. The State Government and the Urban Local Bodies(ULBs) execute a Memorandum of Agreement (MoA) with Govt. of India indicating their commitment to implement a set of mandatory and optional reforms.
- The Sub Missions on UIG and BSUP are being implemented in 63 Mission towns while the other 2 Sub-missions viz. UIDSSMT and IHSDP, are being implemented in all cities/ towns, excepting cities/ towns covered under UIG/ BSUP.
- The projects are sanctioned by the Central Sanctioning and Monitoring Committees (CSMC) chaired by Secretary, Ministry of Urban Development and Ministry of HUPA. The projects under the scheme are implemented by State level implementing agencies.
- Budget Provision and release of Central assistance under the scheme during the last 4 years (2005-06 to 2009-10) is as under:

(Rs. in crore)

Year	2006-07		2007-08		2008-09		2009-10	
	Budget Provision (RE)	Release	Budget Provision (RE)	Release	Budget Provision (RE)	Release	Budget Provision (RE)	Release (as on 20.10.09)
SMUIG	1771.93	1262.94	2474.00	2474.00	4400.37	4400.37	5117.26	1580.71
UIDSSMT	740.00	1204.00	1204.00	651.95	3279.69	3279.69	3073.56	23.86
BSUP	722.00	901.77	1022.00	1022.00	1656.54	1472.68	2168.94	449.95
IHSDP	362.00	492.60	788.00	788.00	1111.38	1295.24	1108.86	417.42
Rajiv Awas Yojana							150.00	
Total	3595.93	3861.31	5488.00	4935.95	10447.98	10447.98	11618.62	2471.94

Central assistance scheme-wise released to States during 2009-10 (as on 20-10-2009)

(Rs. In crore)

SI.NO	Scheme	BE			Plan Release		
		Loan	Grant	Total	Loan	Grant	Total
1	Normal Central Assistance		19110.61	19110.61	0	10797.08	10797.08
2	Special Plan Assistance		4602	4602	0	3465	3465
3	Additional Central Assistance Other Projects		1550	1550	0	533.85	533.85
4	Special Central Assistance		0	0	0	0	0
	Sub Total (1 to 4)		25262.61	25262.61	0	14795.93	14795.93
5	Additional Central Assistance (ACA) for Externally Aided Projects	2250	1250	3500	1296.86	1167.66	2464.53
6	Special Central Assistance (SCA) for HADP/WGDP		272	272	0	63.76	63.76
7	Special Central Assistance(SCA) for Border Areas		635	635	0	310.57	310.57
8	Accelerated Irrigation Benefit Programme		9700	9700	0	3179.41	3179.41
9	National Social Assistance Programme including Annapurna		5109.24	5109.24	0	4260.54	4260.54
10	Nutrition Programme for Adolescent Girls		162.77	162.77	0	49.55	49.55
11	National E-Governance Action Plan		469.37	469.37	0	0	0
12	Special Central Assistance under Backward Regions Grant Fund		1130	1130	0	448.67	448.67
13	Tsunami Rehabilitation Programme		336.98	336.98	0	0	0
14	Brihan Mumbai Storm Water Drain Project (BRIMSTOWA), Mumbai		500	500	0	0	0
15	ACA For Desalination Plant In Chennai		300	300	0	0	0
16	Additional Central Assistance (ACA) for Externally Aided Projects – Back to Back	3375	625	4000	1556.62	279.52	1836.13
17	ACA for Accelerated Power Development and Reforms(APDRP)		350	350	0	156.06	156.06
18	ACA for Accrelerated Programme of Restoration and Regeneration of Forest Cover		500	500	0	0	0
19	ACA for Infrastructure Support for opening bank branches in unbanked blocks		100	100	0	0	0
20	ACA for Long Term reconstruction of assets damaged during 2005-06 floods		0	0	0	0	0
	Sub Total (1 to 18)	5625	46702.97	52327.97	2853.48	24711.68	27565.16
21	Sub-Mission on Urban Infrastructure and Governance (UIG) under JNNURM		5117.26	5117.26	0	1580.71	1580.71
22	Urban Infrastructure Development For Small and Medium Towns (UIDSSMT) under JNNURM		3073.56	3073.56	0	23.86	23.86
23	Sub-Mission on Basic Services to Urban Poor under JNNURM		2168.94	2168.94	0	449.95	449.95
24	Integrated Housing and Slum Development Programme (IHSDP) under JNNURM		1108.86	1108.86	0	417.42	417.42
25	Rajiv Gandhi Awas Yojana		150	150	0	0	0
	JNNURM(19-22)Sub Total		11618.62	11618.62	0	2471.94	2471.94
	Grand Total	5625	58321.59	63946.59	2853.48	27183.62	30037.1

DEPARTMENT OF DISINVESTMENT

ERSTWHILE POLICY ON DISINVESTMENT

National Common Minimum Programme (NCMP) adopted by the Government outlined the policy of the Government with respect to the public sector including disinvestment of Government equity in CPSEs. The salient features of NCMP in this regard are as follows: -

- (a) The Government is committed to a strong and effective public sector whose social objectives are met by its commercial functioning. Generally profit-making companies will not be privatized.
- (b) All privatizations will be considered on a transparent and consultative case-by-case basis. The Government will retain existing “navratna” companies in the public sector while these companies raise resources from the capital market. While every effort will be made to modernize and restructure sick public sector companies and revive sick industry, chronically loss-making companies will either be sold-off, or closed, after all workers have got their legitimate dues and compensation. The Government will induct private industry to turn around companies that have potential for revival.
- (c) The Government believes that privatization should increase competition, not decrease it. It will not support the emergence of any monopoly that only restricts competition. It also believes that there must be a direct link between privatization and social needs – like, for example, the use of privatization revenues for designated social sector schemes. Public sector companies and nationalized banks will be encouraged to enter the capital market to raise resources and offer new investment avenues to retail investors.

The Government on 27th January, 2005, approved in principle:

- a. listing of currently unlisted profitable CPSEs each with a Net Worth in excess of Rs.200 crore, through an Initial Public Offering (IPO), either in conjunction with a fresh equity issue by the CPSE concerned or independently by the Government, on a case by case basis, subject to the residual equity of the Government remaining at least 51 per cent and the Government retaining management control of the CPSE;
- b. the sale of minority shareholding of the Government in listed, profitable CPSEs either in conjunction with a Public Issue of fresh equity by the CPSE concerned or independently by the Government subject to the residual equity of the Government remaining at least 51 per cent and the Government retaining management control of the CPSE; and
- c. Constitution of a “National Investment Fund”.

Government on 25th November, 2005 decided, in principle, to list large, profitable CPSEs on domestic stock exchanges and to selectively sell small portions of equity in listed, profitable CPSEs (**other than the navratnas**).

In his Budget Speech on July 6, 2009, The Finance Minister stated “The Public Sector Undertakings are the wealth of the nation, and part of this wealth should rest in the hands of the people. While retaining at least 51 per cent Government equity in our enterprises, I propose to encourage people’s participation in our disinvestment programme. Here, I must state clearly that public sector enterprises such as banks and insurance companies will remain in the public sector and will be given all support, including capital infusion, to grow and remain competitive.”

Approach for Disinvestment

1. Focus would first be on profitable companies listed with less than 10% public shareholding and make them compliant through Follow-on Public Offerings.
2. Profitable unlisted companies would be got listed through offer for sale or issue of fresh equity by the companies or in conjunction.
3. If profitable listed companies need funds for their capital expenditure requirements and they plan to approach the market with follow-on public offerings; government would consider sale of a part of its shareholding by riding piggy back the follow-on public offerings.

The Department of Disinvestment is in dialogue with the Ministries/Department and CPSEs to identify cases for disinvestment

Objective of Listing

There are inherent advantages in the listing of shares of profitable CPSEs on the stock exchanges. In the overall, this process will enhance shareholder value in such CPSEs through the following requisites for listed companies: -

- (a) Higher disclosure levels will bring greater transparency, equity and credibility;
- (b) Enhanced corporate governance with the induction of independent directors will cause substantial accretions to management accountability and performance;
- (c) Higher levels of public scrutiny will enforce ethical conduct of business and improve corporate culture; and
- (d) Expectations of investors (shareholders) will bring pressure upon the management to perform efficiently and economically to unlock the true value of the enterprise.

Listing would provide development of people-ownership of CPSEs, thus encourage participation and sharing the prosperity of CPSEs.

DISINVESTMENT DURING 2004-05 TILL OCTOBER 2009

National Thermal Power Corporation Limited (NTPC): NTPC Limited had proposed an Initial Public Offering (IPO) through issue of fresh equity of 5.25% of the fully diluted post issue equity of the company. Government on 12th July, 2004 approved disinvestment of 5.25% equity of NTPC out of Government's shareholding in conjunction with the IPO by the company. The IPO was completed in October 2004. An amount of Rs.2684.07 crore was realized by the Government.

Maruti Udyog Limited (MUL) (Not a CPSU): Government on 2nd September, 2005 approved the proposal for disinvestment of 8% equity in Maruti Udyog Limited. In January 2006 Government sold 8% equity of the company out of its residual shareholding of 18.28% to public sector institutions and public sector banks; through a differential pricing method. Government realised Rs.1567.60 crore from this sale. In March 2006 0.01% equity of the company was sold to the employees of the company and the Government realized an amount of Rs.2.08 crore. Government on 21st December 2006 decided that the Government may disinvest its entire residual shareholding of 10.27% in Maruti Udyog Limited. The shareholding of 10.27% was disinvested in May 2007 through the differential pricing method to Indian Public Sector Financial Institutions, Public Sector Banks and Indian Mutual Funds. The Government realized Rs.2277.62 crore from this disinvestment.

Power Grid Corporation of India Limited (PGCIL): Government on 8th February, 2007 approved disinvestment of 5% equity of the company out of Government's shareholding along with the fresh issue of equity of 10% of the pre-issue paid-up capital of PGCIL. The IPO was completed in October 2007 and Government realized an amount of Rs.994.82 crore.

Rural Electrification Corporation Limited (REC): Government on 8th February, 2007 approved disinvestment of 10% equity of the company out of Government's shareholding along with the fresh issue of equity of 10% of the pre-issue paid-up capital of REC. The IPO was completed in March 2008 and the Government realized an amount of Rs.819.63 crore.

NHPC Limited: Government on 8th February, 2007 approved disinvestment of 5% equity of the company out of Government's shareholding along with the fresh issue of equity of 10% of the pre-issue paid-up capital of NHPC Ltd. The IPO was completed in August 2009 and Government realized an amount of Rs. 2012.85 crore.

Oil India Limited: Government on 30th August, 2007 approved disinvestment of 10% equity of the company out of Government's shareholding along with the fresh issue of equity of 11% of the post-issue paid-up capital of Oil India Limited and Government to simultaneously disinvest 10% equity in favour of IOC, HPCL and BPCL in the ratio of 2:1:1, at the market discovered price. The IPO was completed in September 2009 and Government realized an amount of Rs. 2247.046 crore.

NATIONAL INVESTMENT FUND

On 27th January 2005, the Government had decided to constitute a "National Investment Fund" (NIF) into which the realisation from sale of minority shareholding of the

Government in profitable CPSEs would be channelised. The Fund would be maintained outside the Consolidated Fund of India. The income from the Fund would be used for the following broad investment objectives: -

- (a) Investment in social sector projects which promote education, health care and employment;
- (b) Capital investment in selected profitable and revivable Public Sector Enterprises that yield adequate returns in order to enlarge their capital base to finance expansion/ diversification.

Salient features of NIF:

- (i) The proceeds from disinvestment of Central Public Sector Enterprises will be channelised into the National Investment Fund which is to be maintained outside the Consolidated Fund of India.
- (ii) The corpus of the National Investment Fund will be of a permanent nature.
- (iii) The Fund will be professionally managed to provide sustainable returns to the Government, without depleting the corpus. Selected Public Sector Mutual Funds will be entrusted with the management of the corpus of the Fund.
- (iv) 75 per cent of the annual income of the Fund will be used to finance selected social sector schemes, which promote education, health and employment. The residual 25 per cent of the annual income of the Fund will be used to meet the capital investment requirements of profitable and revivable CPSEs that yield adequate returns, in order to enlarge their capital base to finance expansion/diversification.

Fund Managers of NIF

The following Public Sector Mutual Funds have been appointed initially as Fund Managers to manage the funds of NIF under the 'discretionary mode' of the Portfolio Management Scheme which is governed by SEBI guidelines.

- i) UTI Assets Management Company Ltd.
- ii) SBI Funds Management Company (Pvt.) Ltd.
- iii) Jeevan Bima Sahayog, Asset Management Company Ltd.

CORPUS OF NIF

The corpus of the Fund is Rs.1814.45 crore being the proceeds from the disinvestment in Power Grid Corporation and Rural Electrification Corporation. The pay out on NIF was Rs.84.81 crores in the first year. The pay out received in the second year was Rs.206.21 crores. Average income of first year was 8.47%. Average income of second year was 10.02%. Thus, the average income was 9.245% against the hurdle rate of 9.25%.
